

Attachment 1

Appendix F. Development Fund for Iraq Financial Reporting Matrix

Development Fund for Iraq (DFI) - Financial Reporting Matrix	
Reporting Date: June 26, 2004	
As of Date: June 24, 2004	
Inception Date: May 28, 2003	
Bank Accounts and Investments	US Dollars
Central Bank of Iraq - Oil Proceeds Receipt Account, FRB, NY	616,499.19
DFI Account - Federal Reserve Bank, New York	151,544.75
DFI Account - Central Bank of Iraq, Baghdad	1,050,527,283.09
DFI Account - Treasury Bills at Purchase Price	4,768,665,359.51
DFI Account - Overnight Deposits, FRB, New York	1,673,300,000.00
DFI Account - Vested Assets, Federal Reserve Bank, New York	21,716.63
DFI Account - Temporary Cash Holdings	70,971,490.00
Total - DFI Assets	<u>7,564,253,893.17</u>
Cash Inflow (Since Inception)	
Oil For Food	8,100,000,000.00
Proceeds from Oil Exports	11,111,692,362.73
UNSCR 1483 - Repatriated Funds	1,014,805,645.22
Interest Income - Treasury Bills	33,874,372.53
Interest Income - Overnight Deposits, Repurchase Agreements	7,636,464.80
Returned Letter of Credit Funding	3,686,295.39
Other Deposits	542,455.97
Donations	20,000.00
United Nations World Food Program	145,878,779.00
Vested Assets (Including Interest)	16,291,014.19
Transactional Deposits from Public Sector Entities	162,954,456.80
Total Cash Inflow	<u>20,597,381,846.63</u>
Cash Outflow (Since Inception)	
Ministry Budgets	(8,825,926,528.27)
Payments for Projects.	(3,348,865,439.20)
Transactional Withdrawals - Public Sector Entities	(886,846,675.18)
Miscellaneous Transactions	(32,105,810.00)
Total Cash Outflow	<u>(13,093,744,452.65)</u>
Net Cash Position	<u>7,503,637,393.98</u>
Outstanding Contractual Commitments	
Total PRB Approved Commitments (Since inception)	19,697,863,666.63
Commitments Returned / Cancelled	(3,185,642,810.08)
Commitments Paid	(11,892,642,550.37)
Outstanding Commitments	<u>4,619,578,306.18</u>
DFI Assets On Hand Committed to Remaining 2004 Budget	2,884,059,087.80

Attachment 2

**Security Council**

Distr.: General

22 May 2003

Resolution 1483 (2003)**Adopted by the Security Council at its 4761st meeting, on
22 May 2003***The Security Council,**Recalling* all its previous relevant resolutions,*Reaffirming* the sovereignty and territorial integrity of Iraq,*Reaffirming also* the importance of the disarmament of Iraqi weapons of mass destruction and of eventual confirmation of the disarmament of Iraq,*Stressing* the right of the Iraqi people freely to determine their own political future and control their own natural resources, *welcoming* the commitment of all parties concerned to support the creation of an environment in which they may do so as soon as possible, and *expressing* resolve that the day when Iraqis govern themselves must come quickly,*Encouraging* efforts by the people of Iraq to form a representative government based on the rule of law that affords equal rights and justice to all Iraqi citizens without regard to ethnicity, religion, or gender, and, in this connection, *recalls* resolution 1325 (2000) of 31 October 2000,*Welcoming* the first steps of the Iraqi people in this regard, and *noting* in this connection the 15 April 2003 Nasiriyah statement and the 28 April 2003 Baghdad statement,*Resolved* that the United Nations should play a vital role in humanitarian relief, the reconstruction of Iraq, and the restoration and establishment of national and local institutions for representative governance,*Noting* the statement of 12 April 2003 by the Ministers of Finance and Central Bank Governors of the Group of Seven Industrialized Nations in which the members recognized the need for a multilateral effort to help rebuild and develop Iraq and for the need for assistance from the International Monetary Fund and the World Bank in these efforts,*Welcoming also* the resumption of humanitarian assistance and the continuing efforts of the Secretary-General and the specialized agencies to provide food and medicine to the people of Iraq,*Welcoming* the appointment by the Secretary-General of his Special Adviser on Iraq,

Affirming the need for accountability for crimes and atrocities committed by the previous Iraqi regime,

Stressing the need for respect for the archaeological, historical, cultural, and religious heritage of Iraq, and for the continued protection of archaeological, historical, cultural, and religious sites, museums, libraries, and monuments,

Noting the letter of 8 May 2003 from the Permanent Representatives of the United States of America and the United Kingdom of Great Britain and Northern Ireland to the President of the Security Council (S/2003/538) and recognizing the specific authorities, responsibilities, and obligations under applicable international law of these states as occupying powers under unified command (the "Authority"),

Noting further that other States that are not occupying powers are working now or in the future may work under the Authority,

Welcoming further the willingness of Member States to contribute to stability and security in Iraq by contributing personnel, equipment, and other resources under the Authority,

Concerned that many Kuwaitis and Third-State Nationals still are not accounted for since 2 August 1990,

Determining that the situation in Iraq, although improved, continues to constitute a threat to international peace and security,

Acting under Chapter VII of the Charter of the United Nations,

1. *Appeals* to Member States and concerned organizations to assist the people of Iraq in their efforts to reform their institutions and rebuild their country, and to contribute to conditions of stability and security in Iraq in accordance with this resolution;

2. *Calls upon* all Member States in a position to do so to respond immediately to the humanitarian appeals of the United Nations and other international organizations for Iraq and to help meet the humanitarian and other needs of the Iraqi people by providing food, medical supplies, and resources necessary for reconstruction and rehabilitation of Iraq's economic infrastructure;

3. *Appeals* to Member States to deny safe haven to those members of the previous Iraqi regime who are alleged to be responsible for crimes and atrocities and to support actions to bring them to justice;

4. *Calls upon* the Authority, consistent with the Charter of the United Nations and other relevant international law, to promote the welfare of the Iraqi people through the effective administration of the territory, including in particular working towards the restoration of conditions of security and stability and the creation of conditions in which the Iraqi people can freely determine their own political future;

5. *Calls upon* all concerned to comply fully with their obligations under international law including in particular the Geneva Conventions of 1949 and the Hague Regulations of 1907;

6. *Calls upon* the Authority and relevant organizations and individuals to continue efforts to locate, identify, and repatriate all Kuwaiti and Third-State Nationals or the remains of those present in Iraq on or after 2 August 1990, as well as the Kuwaiti archives, that the previous Iraqi regime failed to undertake, and, in this regard, *directs* the High-Level Coordinator, in consultation with the

International Committee of the Red Cross and the Tripartite Commission and with the appropriate support of the people of Iraq and in coordination with the Authority, to take steps to fulfil his mandate with respect to the fate of Kuwaiti and Third-State National missing persons and property;

7. *Decides* that all Member States shall take appropriate steps to facilitate the safe return to Iraqi institutions of Iraqi cultural property and other items of archaeological, historical, cultural, rare scientific, and religious importance illegally removed from the Iraq National Museum, the National Library, and other locations in Iraq since the adoption of resolution 661 (1990) of 6 August 1990, including by establishing a prohibition on trade in or transfer of such items and items with respect to which reasonable suspicion exists that they have been illegally removed, and *calls upon* the United Nations Educational, Scientific, and Cultural Organization, Interpol, and other international organizations, as appropriate, to assist in the implementation of this paragraph;

8. *Requests* the Secretary-General to appoint a Special Representative for Iraq whose independent responsibilities shall involve reporting regularly to the Council on his activities under this resolution, coordinating activities of the United Nations in post-conflict processes in Iraq, coordinating among United Nations and international agencies engaged in humanitarian assistance and reconstruction activities in Iraq, and, in coordination with the Authority, assisting the people of Iraq through:

(a) coordinating humanitarian and reconstruction assistance by United Nations agencies and between United Nations agencies and non-governmental organizations;

(b) promoting the safe, orderly, and voluntary return of refugees and displaced persons;

(c) working intensively with the Authority, the people of Iraq, and others concerned to advance efforts to restore and establish national and local institutions for representative governance, including by working together to facilitate a process leading to an internationally recognized, representative government of Iraq;

(d) facilitating the reconstruction of key infrastructure, in cooperation with other international organizations;

(e) promoting economic reconstruction and the conditions for sustainable development, including through coordination with national and regional organizations, as appropriate, civil society, donors, and the international financial institutions;

(f) encouraging international efforts to contribute to basic civilian administration functions;

(g) promoting the protection of human rights;

(h) encouraging international efforts to rebuild the capacity of the Iraqi civilian police force; and

(i) encouraging international efforts to promote legal and judicial reform;

9. *Supports* the formation, by the people of Iraq with the help of the Authority and working with the Special Representative, of an Iraqi interim administration as a transitional administration run by Iraqis, until an internationally

recognized, representative government is established by the people of Iraq and assumes the responsibilities of the Authority;

10. *Decides* that, with the exception of prohibitions related to the sale or supply to Iraq of arms and related materiel other than those arms and related materiel required by the Authority to serve the purposes of this and other related resolutions, all prohibitions related to trade with Iraq and the provision of financial or economic resources to Iraq established by resolution 661 (1990) and subsequent relevant resolutions, including resolution 778 (1992) of 2 October 1992, shall no longer apply;

11. *Reaffirms* that Iraq must meet its disarmament obligations, *encourages* the United Kingdom of Great Britain and Northern Ireland and the United States of America to keep the Council informed of their activities in this regard, and *underlines* the intention of the Council to revisit the mandates of the United Nations Monitoring, Verification, and Inspection Commission and the International Atomic Energy Agency as set forth in resolutions 687 (1991) of 3 April 1991, 1284 (1999) of 17 December 1999, and 1441 (2002) of 8 November 2002;

12. *Notes* the establishment of a Development Fund for Iraq to be held by the Central Bank of Iraq and to be audited by independent public accountants approved by the International Advisory and Monitoring Board of the Development Fund for Iraq and looks forward to the early meeting of that International Advisory and Monitoring Board, whose members shall include duly qualified representatives of the Secretary-General, of the Managing Director of the International Monetary Fund, of the Director-General of the Arab Fund for Social and Economic Development, and of the President of the World Bank;

13. *Notes further* that the funds in the Development Fund for Iraq shall be disbursed at the direction of the Authority, in consultation with the Iraqi interim administration, for the purposes set out in paragraph 14 below;

14. *Underlines* that the Development Fund for Iraq shall be used in a transparent manner to meet the humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq's infrastructure, for the continued disarmament of Iraq, and for the costs of Iraqi civilian administration, and for other purposes benefiting the people of Iraq;

15. *Calls upon* the international financial institutions to assist the people of Iraq in the reconstruction and development of their economy and to facilitate assistance by the broader donor community, and *welcomes* the readiness of creditors, including those of the Paris Club, to seek a solution to Iraq's sovereign debt problems;

16. *Requests* also that the Secretary-General, in coordination with the Authority, continue the exercise of his responsibilities under Security Council resolution 1472 (2003) of 28 March 2003 and 1476 (2003) of 24 April 2003, for a period of six months following the adoption of this resolution, and terminate within this time period, in the most cost effective manner, the ongoing operations of the "Oil-for-Food" Programme (the "Programme"), both at headquarters level and in the field, transferring responsibility for the administration of any remaining activity under the Programme to the Authority, including by taking the following necessary measures:

(a) to facilitate as soon as possible the shipment and authenticated delivery of priority civilian goods as identified by the Secretary-General and representatives

designated by him, in coordination with the Authority and the Iraqi interim administration, under approved and funded contracts previously concluded by the previous Government of Iraq, for the humanitarian relief of the people of Iraq, including, as necessary, negotiating adjustments in the terms or conditions of these contracts and respective letters of credit as set forth in paragraph 4 (d) of resolution 1472 (2003);

(b) to review, in light of changed circumstances, in coordination with the Authority and the Iraqi interim administration, the relative utility of each approved and funded contract with a view to determining whether such contracts contain items required to meet the needs of the people of Iraq both now and during reconstruction, and to postpone action on those contracts determined to be of questionable utility and the respective letters of credit until an internationally recognized, representative government of Iraq is in a position to make its own determination as to whether such contracts shall be fulfilled;

(c) to provide the Security Council within 21 days following the adoption of this resolution, for the Security Council's review and consideration, an estimated operating budget based on funds already set aside in the account established pursuant to paragraph 8 (d) of resolution 986 (1995) of 14 April 1995, identifying:

(i) all known and projected costs to the United Nations required to ensure the continued functioning of the activities associated with implementation of the present resolution, including operating and administrative expenses associated with the relevant United Nations agencies and programmes responsible for the implementation of the Programme both at Headquarters and in the field;

(ii) all known and projected costs associated with termination of the Programme;

(iii) all known and projected costs associated with restoring Government of Iraq funds that were provided by Member States to the Secretary-General as requested in paragraph 1 of resolution 778 (1992); and

(iv) all known and projected costs associated with the Special Representative and the qualified representative of the Secretary-General identified to serve on the International Advisory and Monitoring Board, for the six month time period defined above, following which these costs shall be borne by the United Nations;

(d) to consolidate into a single fund the accounts established pursuant to paragraphs 8 (a) and 8 (b) of resolution 986 (1995);

(e) to fulfil all remaining obligations related to the termination of the Programme, including negotiating, in the most cost effective manner, any necessary settlement payments, which shall be made from the escrow accounts established pursuant to paragraphs 8 (a) and 8 (b) of resolution 986 (1995), with those parties that previously have entered into contractual obligations with the Secretary-General under the Programme, and to determine, in coordination with the Authority and the Iraqi interim administration, the future status of contracts undertaken by the United Nations and related United Nations agencies under the accounts established pursuant to paragraphs 8 (b) and 8 (d) of resolution 986 (1995);

(f) to provide the Security Council, 30 days prior to the termination of the Programme, with a comprehensive strategy developed in close coordination with the Authority and the Iraqi interim administration that would lead to the delivery of all

relevant documentation and the transfer of all operational responsibility of the Programme to the Authority;

17. *Requests further* that the Secretary-General transfer as soon as possible to the Development Fund for Iraq 1 billion United States dollars from unencumbered funds in the accounts established pursuant to paragraphs 8 (a) and 8 (b) of resolution 986 (1995), restore Government of Iraq funds that were provided by Member States to the Secretary-General as requested in paragraph 1 of resolution 778 (1992), and *decides* that, after deducting all relevant United Nations expenses associated with the shipment of authorized contracts and costs to the Programme outlined in paragraph 16 (c) above, including residual obligations, all surplus funds in the escrow accounts established pursuant to paragraphs 8 (a), 8 (b), 8 (d), and 8 (f) of resolution 986 (1995) shall be transferred at the earliest possible time to the Development Fund for Iraq;

18. *Decides* to terminate effective on the adoption of this resolution the functions related to the observation and monitoring activities undertaken by the Secretary-General under the Programme, including the monitoring of the export of petroleum and petroleum products from Iraq;

19. *Decides* to terminate the Committee established pursuant to paragraph 6 of resolution 661 (1990) at the conclusion of the six month period called for in paragraph 16 above and *further decides* that the Committee shall identify individuals and entities referred to in paragraph 23 below;

20. *Decides* that all export sales of petroleum, petroleum products, and natural gas from Iraq following the date of the adoption of this resolution shall be made consistent with prevailing international market best practices, to be audited by independent public accountants reporting to the International Advisory and Monitoring Board referred to in paragraph 12 above in order to ensure transparency, and *decides further* that, except as provided in paragraph 21 below, all proceeds from such sales shall be deposited into the Development Fund for Iraq until such time as an internationally recognized, representative government of Iraq is properly constituted;

21. *Decides further* that 5 per cent of the proceeds referred to in paragraph 20 above shall be deposited into the Compensation Fund established in accordance with resolution 687 (1991) and subsequent relevant resolutions and that, unless an internationally recognized, representative government of Iraq and the Governing Council of the United Nations Compensation Commission, in the exercise of its authority over methods of ensuring that payments are made into the Compensation Fund, decide otherwise, this requirement shall be binding on a properly constituted, internationally recognized, representative government of Iraq and any successor thereto;

22. *Noting* the relevance of the establishment of an internationally recognized, representative government of Iraq and the desirability of prompt completion of the restructuring of Iraq's debt as referred to in paragraph 15 above, *further decides* that, until December 31, 2007, unless the Council decides otherwise, petroleum, petroleum products, and natural gas originating in Iraq shall be immune, until title passes to the initial purchaser from legal proceedings against them and not be subject to any form of attachment, garnishment, or execution, and that all States shall take any steps that may be necessary under their respective domestic legal systems to assure this protection, and that proceeds and obligations arising from sales thereof, as well as the Development Fund for Iraq, shall enjoy privileges and

immunities equivalent to those enjoyed by the United Nations except that the above-mentioned privileges and immunities will not apply with respect to any legal proceeding in which recourse to such proceeds or obligations is necessary to satisfy liability for damages assessed in connection with an ecological accident, including an oil spill, that occurs after the date of adoption of this resolution;

23. *Decides* that all Member States in which there are:

(a) funds or other financial assets or economic resources of the previous Government of Iraq or its state bodies, corporations, or agencies, located outside Iraq as of the date of this resolution, or

(b) funds or other financial assets or economic resources that have been removed from Iraq, or acquired, by Saddam Hussein or other senior officials of the former Iraqi regime and their immediate family members, including entities owned or controlled, directly or indirectly, by them or by persons acting on their behalf or at their direction,

shall freeze without delay those funds or other financial assets or economic resources and, unless these funds or other financial assets or economic resources are themselves the subject of a prior judicial, administrative, or arbitral lien or judgement, immediately shall cause their transfer to the Development Fund for Iraq, it being understood that, unless otherwise addressed, claims made by private individuals or non-government entities on those transferred funds or other financial assets may be presented to the internationally recognized, representative government of Iraq; and *decides further* that all such funds or other financial assets or economic resources shall enjoy the same privileges, immunities, and protections as provided under paragraph 22;

24. *Requests* the Secretary-General to report to the Council at regular intervals on the work of the Special Representative with respect to the implementation of this resolution and on the work of the International Advisory and Monitoring Board and *encourages* the United Kingdom of Great Britain and Northern Ireland and the United States of America to inform the Council at regular intervals of their efforts under this resolution;

25. *Decides* to review the implementation of this resolution within twelve months of adoption and to consider further steps that might be necessary;

26. *Calls upon* Member States and international and regional organizations to contribute to the implementation of this resolution;

27. *Decides* to remain seized of this matter.

Attachment 3

CRS Report for Congress

Received through the CRS Web

The Coalition Provisional Authority (CPA): Origin, Characteristics, and Institutional Authorities

Updated June 6, 2005

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The Coalition Provisional Authority (CPA): Origin, Characteristics, and Institutional Authorities

Introduction

The Coalition Provisional Authority (CPA or “the authority”) was established approximately one month after United States and coalition forces took control of Baghdad in Iraq on April 9, 2003.¹ The authority’s mission was “to restore conditions of security and stability, to create conditions in which the Iraqi people can freely determine their own political future, (including by advancing efforts to restore and establish national and local institutions for representative governance) and facilitating economic recovery, sustainable reconstruction and development.”² Information provided on the CPA website indicated that “[t]he Governing Council and the Coalition Provisional Authority will be dissolved” by June 30, 2004, and that “[t]his will end the responsibilities of the Coalition as an occupying power as specified in the United Nations resolutions.”³

After examining the origin of CPA, this report discusses two views on how the authority was established, reviews selected characteristics of the authority, identifies statutory reporting requirements concerning the authority and the reconstruction of Iraq, and explores several policy issues.

The Office of Reconstruction and Humanitarian Assistance and the Coalition Provisional Authority

Responsibility for providing humanitarian assistance and aiding in the reconstruction of postwar Iraq initially fell to the Office of Reconstruction and Humanitarian Assistance (ORHA). ORHA was established by National Security Presidential Directive (NSPD) 24, which was signed by the President on January 20, 2003. This document also gave DOD responsibility for post-war control of Iraq.⁴

¹ CRS Report RL32105, *Post-War Iraq: A Table and Chronology of Foreign Contributions*, by Jeremy M. Sharp, Melanie Caesar, and Adam Frost, p. 10.

² U.S. Office of Management and Budget, *Report to Congress Pursuant to Section 1506 of the Emergency Wartime Supplemental Appropriations Act, 2003 (Public Law 108-11)*, June 2, 2003, p. 2.

³ Coalition Provisional Authority and Iraqi Governing Council, *The November 15 Agreement: Timeline to a Sovereign, Democratic and Secure Iraq*, available at [<http://iraqcoalition.org/government/AgreementNov15.pdf>].

⁴ U.S. Department of Defense, Office of the Inspector General, *Contracts Awarded for the* (continued...)

NPSD 24 has not been released to the public. A news article stated that ORHA was tied to the Pentagon and that, while the U.S. Agency for International Development (USAID) would handle much of the humanitarian and reconstruction work, ORHA would be in charge of the funding.⁵ As early as February 12, it was reported that Lieutenant General Jay M. Garner, U.S. Army (ret.), had been selected to serve as the coordinator for humanitarian and reconstruction assistance, and that he would report to General Tommy R. Franks, then-commander of U.S. Central Command.⁶ Lieutenant General Garner was appointed by the Secretary of Defense, and his position description as head of ORHA stated:

This Office [ORHA] is established at the direction of the President of the United States, and is located for administrative purposes under Boards, Commissions and Task Forces, Washington Headquarters Services. This Office is under the supervision of the Under Secretary of Defense for Policy.⁷

Signed by the Office of the Under Secretary of Defense for Policy on February 11, 2003, this position description was not approved and certified by the Director, Administration and Management, Office of the Secretary of Defense, until March 5, 2003.⁸

As late as mid-April, it appeared that Lieutenant General Garner was still in charge of ORHA.⁹ However, a news report dated May 2 stated that President George W. Bush planned to name Ambassador L. Paul Bremer III as special envoy and civil administrator of Iraq, and that Lieutenant General Garner would report to Ambassador Bremer.¹⁰ On May 6, 2003, President Bush announced that he had appointed Ambassador Bremer as Presidential Envoy and that he would serve as the senior leader of the coalition. (Unlike his appointment as an ambassador earlier in his career, Senate confirmation was neither required nor sought.) The White House press release also stated:

⁴ (...continued)

Coalition Provisional Authority by the Defense Contracting Command-Washington, Report D-2004-057, March 18, 2004, p. 1, available at [<http://www.dodig.osd.mil/Audit/reports/FY04/04057sum.htm>].

⁵ DeYoung and Morgan, "U.S. Plan for Iraq's Future is Challenged; Pentagon Control, Secrecy Questioned," p. A21.

⁶ Peter Slevin, "U.S. Military Lays Out Postwar Iraq Plan; Officials Brief Congress on Rebuilding Battered Economy, Reshaping Society," *Washington Post*, Feb. 12, 2003, p. A21.

⁷ U.S. Department of Defense, Office of the Inspector General, *Contracts Awarded for the Coalition Provisional Authority by the Defense Contracting Command-Washington*, p. 1.

⁸ Ibid.

⁹ Peter Baker, "U.S. Forces Will Redeploy into 3 Zones; Marines to Occupy Southern Iraq as Army Takes over North; General Will Oversee Capital," *Washington Post*, Apr. 15, 2003, p. A31.

¹⁰ Mike Allen, "Expert on Terrorism to Direct Rebuilding," *Washington Post*, May 2, 2003, p. A1.

In his capacity as Presidential Envoy, he will oversee Coalition reconstruction efforts and the process by which the Iraqi people build the institutions and governing structures that will guide their future.... Ambassador Bremer will report to Secretary of Defense Rumsfeld and will advise the President, through the Secretary, on policies designed to achieve American and Coalition goals for Iraq.¹¹

No mention was made of Lieutenant General Garner or ORHA in the press release.

On May 11, 2003, the *Washington Post* reported the existence of the Coalition Provisional Authority.¹² On May 13, 2003, the Secretary of Defense designated Ambassador Bremer as CPA Administrator.¹³ The first regulation issued by Ambassador Bremer, dated May 16, 2003, identified him as Administrator of CPA. The authority's Inspector General (IG) stated, in his initial report to Congress, that OHRA became CPA in May 2003.¹⁴ However, a March 2004 DOD IG report stated that the Deputy Secretary of Defense, in a June 16, 2003, memorandum, dissolved ORHA and shifted ORHA's functions, responsibilities, and legal obligations to CPA.¹⁵ Apparently, no official announcement was made at the time (that is, May or June 2003) that ORHA had been replaced, or subsumed, by CPA.

By June 18, Lieutenant General Garner no longer was the head of ORHA. A Department of Defense (DOD) news transcript dated June 18 identified him as the former director of ORHA, and indicated he had returned to the United States a couple of weeks earlier.¹⁶

Key CPA Personnel

Ambassador Bremer's deputy was Richard Henry Jones, who was also the U.S. Ambassador to Kuwait. Ambassador Jones, who was on extended temporary duty (TDY) in Iraq, was assigned to the CPA position sometime in November 2003.¹⁷

Sir Jeremy Greenstock, the United Kingdom's Special Representative in Iraq, was referred to, in some news articles and documents, as a deputy to the CPA

¹¹ White House, Office of the Press Secretary, "President Names Envoy to Iraq," May 6, 2003, available at [<http://www.whitehouse.gov/news/releases/2003/05/20030506-5.html>].

¹² Peter Slevin, "Reject Baath Party, U.S. Tells Iraqi Job Hopefuls," *Washington Post*, May 11, 2003, p. A22.

¹³ Donald Rumsfeld, Secretary of Defense, "Designation as Administrator of the Coalition Provisional Authority," memorandum, May 13, 2003.

¹⁴ U.S. Department of Defense, Office of the Inspector General, *Contracts Awarded for the Coalition Provisional Authority by the Defense Contracting Command-Washington*, p. 2.

¹⁵ Ibid.

¹⁶ U.S. Department of Defense, "Secretary Rumsfeld Media Availability with Jay Garner," news transcript, June 18, 2003, available at [<http://www.defenselink.mil/transcripts/2003/jun2003.html>].

¹⁷ Information provided by telephone by the Department of State country office for Kuwait and Bahrain to the author on Mar. 1, 2004.

Administrator, or was identified as effectively serving as a deputy to Ambassador Bremer.¹⁸ A news bulletin produced by the U.S. Permanent Mission to the United Nations Office and Other International Organizations in Geneva identified Sir Jeremy as the CPA deputy.¹⁹ Sir Jeremy's appointment as the United Kingdom's Special Representative was announced June 16, 2003, by the Prime Minister's official spokesman (PMOS). He replaced John Sawers.²⁰

Other senior CPA officials included Rear Admiral David J. Nash, U.S. Navy (ret.), who was director of the Program Management Office (PMO), which had responsibility for monitoring contracts funded by the Emergency Supplemental Appropriations Act for Defense and the Reconstruction of Iraq and Afghanistan for FY2004 (FY2004 emergency supplemental).²¹ Rear Admiral Nash began his duties in July 2003. Major General Ronald L. Johnson, U.S. Army, was the U.S. Deputy to the PMO, and also served as the commander of the Gulf Region Division of the Army Corps of Engineers. As of February 2004, Lawrence Crandall was the U.S. Agency for International Development (USAID) Deputy to the PMO.²² On January 20, 2004, Stuart W. Bowen Jr. was appointed as Inspector General by the Secretary of Defense.²³ Rear Admiral Larry L. Poe, U.S. Navy (ret.), was the Deputy Inspector General.²⁴

¹⁸ Ewen MacAskill, "Iraq after the War: Blair Envoy Warns Iran on Meddling," *Guardian*, Oct. 23, 2003, p. 4; Philip Stephens, "Now Bush Can Make a Fresh Start," *Financial Times*, Dec. 16, 2003, p. 23; Owen Bowcott and Brian Whitaker, "Trouble Looms after Coalition Tells Kurds Self Rule Can Stay," *Guardian*, Jan. 6, 2004, p. 17; Anton La Guardia, "U.S. General Will Lead Iraqi Army," *Daily Telegraph*, Mar. 11, 2004, p. 12; Patrick Cockburn, "Bremer Tries to Salvage Appointed-Government Plan Amid Shia Opposition," *Independent*, Jan. 17, 2004, p. 13.

¹⁹ Judy Aita, "Negroponte Praises Selection of Brahimi to Head Mission," *Daily Bulletin*, Feb. 10, 2004, p. 1, available at [http://www.cpa-iraq.org/pressreleases/20040210_UN_back.html].

²⁰ Prime Minister's Office, "Press Briefing: 11AM Monday 16 June 2003," available at [<http://www.number-10.gov.uk/output/Page3924.asp>].

²¹ P.L. 108-106; 117 Stat. 1209.

²² Coalition Provisional Authority Iraq Program Management Office, "About PMO," available at [http://www.rebuilding-iraq.net/portal/page?_pageid=33,30990&_dad=portal&_schema=PORTAL].

²³ Coalition Provisional Authority, Office of Inspector General, *Message from the Inspector General of the Coalition Provisional Authority*, p. 5. Bowen had previously served in the Bush Administration as a Deputy Assistant to the President and Deputy Staff Secretary at the White House. (Patton Boggs LLP, "White House Deputy Assistant to the President Stuart W. Bowen, Jr., Joins Patton Boggs LLP," news release, Mar. 3, 2003, available at [http://www.pattonboggs.com/News/releases/2003_03_03_Bowen_joins.htm].

²⁴ Coalition Provisional Authority, Office of Inspector General, "Biographies," available at [<http://www.cpa-ig.org/bio.html>].

Attachment 4

COALITION PROVISIONAL AUTHORITY REGULATION NUMBER 2

DEVELOPMENT FUND FOR IRAQ

Pursuant to my authority as Administrator of the Coalition Provisional Authority (CPA), and consistent with relevant U.N. Security Council resolutions, including Resolution 1483 (2003), and the laws and usages of war,

Noting the letter of May 8, 2003 from Permanent Representatives of the United States of America and the United Kingdom of Great Britain and Northern Ireland to the President of the United Nations Security Council (S/2003/538),

Recognizing that ninety-five percent of the proceeds of all export sales of petroleum, petroleum products, and natural gas from Iraq, as well as funds from other sources, shall be deposited into the Development Fund for Iraq until an internationally recognized, representative government of Iraq is properly constituted, and that five percent of the proceeds referred to in paragraph 20 of Resolution 1483 shall be deposited into the Compensation Fund established in accordance with Resolution 687 (1991),

Reaffirming that a major CPA objective is to ensure that the newly established Development Fund for Iraq and other Iraqi resources, including Iraqi petroleum and petroleum products, are dedicated to the well-being of the Iraqi people,

Committed to ensuring, consistent with paragraph 14 of Resolution 1483, that the Development Fund for Iraq shall be used in a transparent manner to meet the humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq's infrastructure, for the continued disarmament of Iraq, and for the costs of Iraqi civilian administration, and for other purposes benefiting the people of Iraq,

I hereby promulgate the following:

Section 1

Purpose

This Regulation applies to the administration, use, accounting and auditing of the Development Fund for Iraq (the "Fund"). The Regulation is intended and shall be applied to ensure that the Fund is managed in a transparent manner for and on behalf of the Iraqi people, consistent with Resolution 1483, and that all disbursements from the Fund are for purposes benefiting the people of Iraq.

- 1) Administrator of the CPA (Administrator). Oversees and controls the establishment, administration and use of the Fund for and on behalf of the Iraqi people, and directs disbursements from the Fund for those purposes he determines to be for the benefit of the people of Iraq.
- 2) Director, Economic Policy, CPA, or other CPA official designated by the Administrator. Manages the Fund, in coordination with the Central Bank of Iraq, the U.S. Federal Reserve Bank of New York and, if the Administrator directs that accounts be opened in the Bank for International Settlements (Switzerland) and/or other financial institutions, in coordination with those institutions.
- 3) CPA Program Review Board (PRB). Reviews all competing requirements for the relief and recovery of Iraq, assesses all available resources, and, in consultation with the Iraqi interim administration, when established, develops for the approval of the Administrator spending plans, consistent with a comprehensive budgetary framework, that identify prioritized requirements for proposed disbursements from the Fund; considers in this process information provided by the CPA International Coordination Council, the International Advisory and Monitoring Board, and other entities, as appropriate.
- 4) CPA International Coordination Council. Advises the PRB on matters relating to international efforts to assist the people of Iraq in the relief, recovery and development of their economy, including proposing specific projects for funding consideration; supporting efforts to encourage the global donor community to participate in this effort; providing the PRB with information regarding the nature and scope of international assistance to Iraq; and, as requested, making recommendations to the PRB with regard to disbursements from the Fund.
- 5) International Advisory and Monitoring Board of the Development Fund for Iraq (the "IAMB"). Including duly qualified representatives of the Secretary-General of the United Nations, the Managing Director of the International Monetary Fund, the Director-General of the Arab Fund for Social and Economic Development, and the President of the World Bank, and not to exceed three additional duly qualified members appointed by the IAMB with the approval of the Administrator. The IAMB shall approve independent public accountants responsible for auditing the Fund, the Oil Proceeds Receipts Account referred to in section 2(9), and auditing export sales of petroleum, petroleum products, and natural gas from Iraq. The Administrator, in consultation with the IAMB, may appoint up to five non-voting observers to the IAMB. Consistent with its terms of reference, the IAMB shall perform functions similar to those of outside audit committees and may provide information and comments to the PRB and the Administrator as appropriate to serve the purposes of Resolution 1483 and this Regulation.

- 7) U.S. Federal Reserve Bank of New York (the "Federal Reserve Bank") (and/or the Bank for International Settlements (Switzerland), and/or other financial institutions, if the Administrator directs that accounts in such institutions be opened). As agreed between such institution(s) and the Administrator, opens and maintains on its books the "Central Bank of Iraq/Development Fund for Iraq" account, as requested by the Administrator. Pursuant to Resolution 1483 and this Regulation, it is understood that the Federal Reserve Bank will be requested to open and maintain on its books an Oil Proceeds Receipts Account (the "Receipts Account") for the initial receipt of proceeds of all export sales of petroleum, petroleum products, and natural gas from Iraq and for the immediate transfer of ninety-five percent of such proceeds to the "Central Bank of Iraq/Development Fund for Iraq" account and five percent of such proceeds to the appropriate United Nations Compensation Fund account.
- 8) Independent public accountants (auditors). Nominated by the Administrator, approved by the IAMB, and reporting to the IAMB and the Administrator, the independent public accountants audit the Fund and audit all export sales of petroleum, petroleum products, and natural gas from Iraq, supporting the objectives of ensuring that the Fund is used in a transparent manner and that such export sales are made consistent with prevailing international market best practices.

Section 3

Establishment of the Fund

The Fund shall be held on the books of the Central Bank of Iraq, and the corpus of the Fund shall be held in an account entitled "Central Bank of Iraq/Development Fund for Iraq," in the Federal Reserve Bank (and/or other financial institution(s), if the Administrator so directs), for the Central Bank of Iraq.

Section 4

Control of the Fund

The Fund shall be controlled by the Administrator of the CPA, for and on behalf of the Iraqi people. The Central Bank of Iraq and the Federal Reserve Bank (and/or other financial institution(s), if the Administrator so directs), shall accept instructions, as agreed, concerning the Fund, including instructions to pay sums out of the Fund, only from the Administrator or his authorized delegee(s).

- 1) General. The Central Bank of Iraq/Development Fund for Iraq account in the Federal Reserve Bank shall be governed by the Federal Reserve Bank's standard terms and conditions regarding accounts of foreign central banks and governments, to the extent consistent with applicable law.
- 2) Communications Protocol. The Fund will be controlled by the Administrator through a communications protocol to be agreed upon between the Administrator and the Federal Reserve Bank (and/or other financial institution(s), if the Administrator so directs). This protocol shall be documented in a funds transfer security procedures agreement.
- 3) Deposits into the Fund. One billion United States dollars from unencumbered funds in the accounts established pursuant to paragraphs 8(a) and 8(b) of United Nations Security Council Resolution 986 (1995) have been transferred to the Fund; and it is anticipated that certain restored and surplus funds, pursuant to paragraphs 17 and 23 of Resolution 1483, will be transferred to the Fund. In addition, ninety-five percent of the proceeds from all export sales of petroleum, petroleum products, and natural gas from Iraq shall be deposited into the Fund, pursuant to paragraph 20 of Resolution 1483, and five percent of such proceeds shall be deposited in the Compensation Fund established pursuant to Resolution 687 (1991), pursuant to paragraph 21 of Resolution 1483. There shall also be accepted for deposit into the Fund any gifts, contributions, donations or other funds, revenues or proceeds.
- 4) Internal Accounting. The CPA shall obtain the services of an independent, certified public accounting firm to support the objective of ensuring that the Fund is administered and used in a transparent manner for the benefit of the people of Iraq, and is operated consistent with Resolution 1483. The accountants performing this function shall be separate from those public accountants (auditors) approved by the International Advisory and Monitoring Board.
- 5) Privileges and Immunities. The Fund, including the accounts that comprise its corpus, and the Receipts Account, shall enjoy the privileges and immunities as set forth in paragraph 22 of Resolution 1483, as well as privileges and immunities to which the Fund may be entitled under any other law, regulation, order, or directive.

- 1) Authority to Approve. Only the Administrator or his delegee may approve disbursements from the Fund.
- 2) Directions to Disburse. Sums shall be disbursed from the Fund, in accordance with this Regulation, only upon the express direction of the Administrator, or upon the express direction of individual(s) to whom the Administrator has delegated that authority.
- 3) Purposes. Sums may be disbursed from the Fund to meet the humanitarian needs of the Iraqi people and for the economic reconstruction and repair of Iraq's infrastructure; for the continued disarmament of Iraq; for the costs of Iraq's civilian administration; and for other purposes the Administrator determines to be for the benefit of the people of Iraq.
- 4) Proposals for Disbursements. Disbursements from the Fund generally shall be proposed through procedures prescribed in, or promulgated in implementation of the CPA Order establishing the PRB. These procedures shall ensure that proposed disbursements are set forth in a spending plan reflecting the cost, purpose and priority of the requirement, and that, prior to approval by the Administrator, all spending plans are developed in consultation with the Iraqi interim administration, once established.

Section 7 Auditing

The Fund and the export sales of petroleum, petroleum products, and natural gas from Iraq, shall be audited by independent public accountants nominated by the Administrator and approved by the IAMB. The expenses incurred in obtaining the services of the approved independent public accountants shall be charged against the Fund. The CPA shall cooperate fully with the IAMB and the approved independent public accountants in carrying out each party's respective responsibilities. In particular, the CPA shall provide the IAMB and such accountants with access to the Fund's financial records, with confidential materials protected in a manner agreed between the parties.

Section 8 Dissolution of the Fund

Until the Fund is dissolved by the Administrator in a manner consistent with Resolution 1483, the Central Bank of Iraq shall continue to hold on its books the Fund. Also, as agreed between the Administrator and the Federal Reserve Bank

Section 8
Dissolution of the Fund

Until the Fund is dissolved by the Administrator in a manner consistent with Resolution 1483, the Central Bank of Iraq shall continue to hold on its books the Fund. Also, as agreed between the Administrator and the Federal Reserve Bank (and/or other financial institution(s)), such institution(s) shall continue to maintain on its books the "Central Bank of Iraq/Development Fund for Iraq" account, and shall continue to accept deposits into, make disbursements from, and otherwise operate the account, in accordance with applicable laws, regulations, policies and agreements.

Section 9
Entry into Force

This Regulation shall enter into force on the date of signature.

A handwritten signature in dark ink, appearing to read "L. Paul Bremer", followed by the date "6/15/03". The signature is written in a cursive, flowing style.

L. Paul Bremer, Administrator
Coalition Provisional Authority

Attachment 5

**Security Council**

Distr.: General
8 June 2004

Resolution 1546 (2004)

**Adopted by the Security Council at its 4987th meeting, on
8 June 2004**

The Security Council,

Welcoming the beginning of a new phase in Iraq's transition to a democratically elected government, and *looking forward* to the end of the occupation and the assumption of full responsibility and authority by a fully sovereign and independent Interim Government of Iraq by 30 June 2004,

Recalling all of its previous relevant resolutions on Iraq,

Reaffirming the independence, sovereignty, unity, and territorial integrity of Iraq,

Reaffirming also the right of the Iraqi people freely to determine their own political future and control their own natural resources,

Recognizing the importance of international support, particularly that of countries in the region, Iraq's neighbours, and regional organizations, for the people of Iraq in their efforts to achieve security and prosperity, and *noting* that the successful implementation of this resolution will contribute to regional stability,

Welcoming the efforts of the Special Adviser to the Secretary-General to assist the people of Iraq in achieving the formation of the Interim Government of Iraq, as set out in the letter of the Secretary-General of 7 June 2004 (S/2004/461),

Taking note of the dissolution of the Governing Council of Iraq, and *welcoming* the progress made in implementing the arrangements for Iraq's political transition referred to in resolution 1511 (2003) of 16 October 2003,

Welcoming the commitment of the Interim Government of Iraq to work towards a federal, democratic, pluralist, and unified Iraq, in which there is full respect for political and human rights,

Stressing the need for all parties to respect and protect Iraq's archaeological, historical, cultural, and religious heritage,

Affirming the importance of the rule of law, national reconciliation, respect for human rights including the rights of women, fundamental freedoms, and democracy including free and fair elections,

Recalling the establishment of the United Nations Assistance Mission for Iraq (UNAMI) on 14 August 2003, and *affirming* that the United Nations should play a leading role in assisting the Iraqi people and government in the formation of institutions for representative government,

Recognizing that international support for restoration of stability and security is essential to the well-being of the people of Iraq as well as to the ability of all concerned to carry out their work on behalf of the people of Iraq, and *welcoming* Member State contributions in this regard under resolution 1483 (2003) of 22 May 2003 and resolution 1511 (2003),

Recalling the report provided by the United States to the Security Council on 16 April 2004 on the efforts and progress made by the multinational force,

Recognizing the request conveyed in the letter of 5 June 2004 from the Prime Minister of the Interim Government of Iraq to the President of the Council, which is annexed to this resolution, to retain the presence of the multinational force,

Recognizing also the importance of the consent of the sovereign Government of Iraq for the presence of the multinational force and of close coordination between the multinational force and that government,

Welcoming the willingness of the multinational force to continue efforts to contribute to the maintenance of security and stability in Iraq in support of the political transition, especially for upcoming elections, and to provide security for the United Nations presence in Iraq, as described in the letter of 5 June 2004 from the United States Secretary of State to the President of the Council, which is annexed to this resolution,

Noting the commitment of all forces promoting the maintenance of security and stability in Iraq to act in accordance with international law, including obligations under international humanitarian law, and to cooperate with relevant international organizations,

Affirming the importance of international assistance in reconstruction and development of the Iraqi economy,

Recognizing the benefits to Iraq of the immunities and privileges enjoyed by Iraqi oil revenues and by the Development Fund for Iraq, and *noting* the importance of providing for continued disbursements of this fund by the Interim Government of Iraq and its successors upon dissolution of the Coalition Provisional Authority,

Determining that the situation in Iraq continues to constitute a threat to international peace and security,

Acting under Chapter VII of the Charter of the United Nations,

1. *Endorses* the formation of a sovereign Interim Government of Iraq, as presented on 1 June 2004, which will assume full responsibility and authority by 30 June 2004 for governing Iraq while refraining from taking any actions affecting Iraq's destiny beyond the limited interim period until an elected Transitional Government of Iraq assumes office as envisaged in paragraph four below;

2. *Welcomes* that, also by 30 June 2004, the occupation will end and the Coalition Provisional Authority will cease to exist, and that Iraq will reassert its full sovereignty;

3. *Reaffirms* the right of the Iraqi people freely to determine their own political future and to exercise full authority and control over their financial and natural resources;

4. *Endorses* the proposed timetable for Iraq's political transition to democratic government including:

(a) formation of the sovereign Interim Government of Iraq that will assume governing responsibility and authority by 30 June 2004;

(b) convening of a national conference reflecting the diversity of Iraqi society; and

(c) holding of direct democratic elections by 31 December 2004 if possible, and in no case later than 31 January 2005, to a Transitional National Assembly, which will, inter alia, have responsibility for forming a Transitional Government of Iraq and drafting a permanent constitution for Iraq leading to a constitutionally elected government by 31 December 2005;

5. *Invites* the Government of Iraq to consider how the convening of an international meeting could support the above process, and *notes* that it would welcome such a meeting to support the Iraqi political transition and Iraqi recovery, to the benefit of the Iraqi people and in the interest of stability in the region;

6. *Calls on* all Iraqis to implement these arrangements peaceably and in full, and on all States and relevant organizations to support such implementation;

7. *Decides* that in implementing, as circumstances permit, their mandate to assist the Iraqi people and government, the Special Representative of the Secretary-General and the United Nations Assistance Mission for Iraq (UNAMI), as requested by the Government of Iraq, shall:

(a) play a leading role to:

(i) assist in the convening, during the month of July 2004, of a national conference to select a Consultative Council;

(ii) advise and support the Independent Electoral Commission of Iraq, as well as the Interim Government of Iraq and the Transitional National Assembly, on the process for holding elections;

(iii) promote national dialogue and consensus-building on the drafting of a national constitution by the people of Iraq;

(b) and also:

(i) advise the Government of Iraq in the development of effective civil and social services;

(ii) contribute to the coordination and delivery of reconstruction, development, and humanitarian assistance;

(iii) promote the protection of human rights, national reconciliation, and judicial and legal reform in order to strengthen the rule of law in Iraq; and

(iv) advise and assist the Government of Iraq on initial planning for the eventual conduct of a comprehensive census;

8. *Welcomes* ongoing efforts by the incoming Interim Government of Iraq to develop Iraqi security forces including the Iraqi armed forces (hereinafter referred to as “Iraqi security forces”), operating under the authority of the Interim Government of Iraq and its successors, which will progressively play a greater role and ultimately assume full responsibility for the maintenance of security and stability in Iraq;

9. *Notes* that the presence of the multinational force in Iraq is at the request of the incoming Interim Government of Iraq and therefore *reaffirms* the authorization for the multinational force under unified command established under resolution 1511 (2003), having regard to the letters annexed to this resolution;

10. *Decides* that the multinational force shall have the authority to take all necessary measures to contribute to the maintenance of security and stability in Iraq in accordance with the letters annexed to this resolution expressing, inter alia, the Iraqi request for the continued presence of the multinational force and setting out its tasks, including by preventing and deterring terrorism, so that, inter alia, the United Nations can fulfil its role in assisting the Iraqi people as outlined in paragraph seven above and the Iraqi people can implement freely and without intimidation the timetable and programme for the political process and benefit from reconstruction and rehabilitation activities;

11. *Welcomes*, in this regard, the letters annexed to this resolution stating, inter alia, that arrangements are being put in place to establish a security partnership between the sovereign Government of Iraq and the multinational force and to ensure coordination between the two, and *notes also* in this regard that Iraqi security forces are responsible to appropriate Iraqi ministers, that the Government of Iraq has authority to commit Iraqi security forces to the multinational force to engage in operations with it, and that the security structures described in the letters will serve as the fora for the Government of Iraq and the multinational force to reach agreement on the full range of fundamental security and policy issues, including policy on sensitive offensive operations, and will ensure full partnership between Iraqi security forces and the multinational force, through close coordination and consultation;

12. *Decides further* that the mandate for the multinational force shall be reviewed at the request of the Government of Iraq or twelve months from the date of this resolution, and that this mandate shall expire upon the completion of the political process set out in paragraph four above, and *declares* that it will terminate this mandate earlier if requested by the Government of Iraq;

13. *Notes* the intention, set out in the annexed letter from the United States Secretary of State, to create a distinct entity under unified command of the multinational force with a dedicated mission to provide security for the United Nations presence in Iraq, *recognizes* that the implementation of measures to provide security for staff members of the United Nations system working in Iraq would require significant resources, and *calls upon* Member States and relevant organizations to provide such resources, including contributions to that entity;

14. *Recognizes* that the multinational force will also assist in building the capability of the Iraqi security forces and institutions, through a programme of recruitment, training, equipping, mentoring, and monitoring;

15. *Requests* Member States and international and regional organizations to contribute assistance to the multinational force, including military forces, as agreed with the Government of Iraq, to help meet the needs of the Iraqi people for security and stability, humanitarian and reconstruction assistance, and to support the efforts of UNAMI;

16. *Emphasizes* the importance of developing effective Iraqi police, border enforcement, and the Facilities Protection Service, under the control of the Interior Ministry of Iraq, and, in the case of the Facilities Protection Service, other Iraqi ministries, for the maintenance of law, order, and security, including combating terrorism, and *requests* Member States and international organizations to assist the Government of Iraq in building the capability of these Iraqi institutions;

17. *Condemns* all acts of terrorism in Iraq, *reaffirms* the obligations of Member States under resolutions 1373 (2001) of 28 September 2001, 1267 (1999) of 15 October 1999, 1333 (2000) of 19 December 2000, 1390 (2002) of 16 January 2002, 1455 (2003) of 17 January 2003, and 1526 (2004) of 30 January 2004, and other relevant international obligations with respect, inter alia, to terrorist activities in and from Iraq or against its citizens, and specifically *reiterates* its call upon Member States to prevent the transit of terrorists to and from Iraq, arms for terrorists, and financing that would support terrorists, and *re-emphasizes* the importance of strengthening the cooperation of the countries of the region, particularly neighbours of Iraq, in this regard;

18. *Recognizes* that the Interim Government of Iraq will assume the primary role in coordinating international assistance to Iraq;

19. *Welcomes* efforts by Member States and international organizations to respond in support of requests by the Interim Government of Iraq to provide technical and expert assistance while Iraq is rebuilding administrative capacity;

20. *Reiterates* its request that Member States, international financial institutions and other organizations strengthen their efforts to assist the people of Iraq in the reconstruction and development of the Iraqi economy, including by providing international experts and necessary resources through a coordinated programme of donor assistance;

21. *Decides* that the prohibitions related to the sale or supply to Iraq of arms and related materiel under previous resolutions shall not apply to arms or related materiel required by the Government of Iraq or the multinational force to serve the purposes of this resolution, *stresses* the importance for all States to abide strictly by them, and *notes* the significance of Iraq's neighbours in this regard, and *calls upon* the Government of Iraq and the multinational force each to ensure that appropriate implementation procedures are in place;

22. *Notes* that nothing in the preceding paragraph affects the prohibitions on or obligations of States related to items specified in paragraphs 8 and 12 of resolution 687 (1991) of 3 April 1991 or activities described in paragraph 3 (f) of resolution 707 (1991) of 15 August 1991, and *reaffirms* its intention to revisit the mandates of the United Nations Monitoring, Verification, and Inspection Commission and the International Atomic Energy Agency;

23. *Calls on* Member States and international organizations to respond to Iraqi requests to assist Iraqi efforts to integrate Iraqi veterans and former militia members into Iraqi society;

24. *Notes* that, upon dissolution of the Coalition Provisional Authority, the funds in the Development Fund for Iraq shall be disbursed solely at the direction of the Government of Iraq, and *decides* that the Development Fund for Iraq shall be utilized in a transparent and equitable manner and through the Iraqi budget including to satisfy outstanding obligations against the Development Fund for Iraq, that the arrangements for the depositing of proceeds from export sales of petroleum, petroleum products, and natural gas established in paragraph 20 of resolution 1483 (2003) shall continue to apply, that the International Advisory and Monitoring Board shall continue its activities in monitoring the Development Fund for Iraq and shall include as an additional full voting member a duly qualified individual designated by the Government of Iraq and that appropriate arrangements shall be made for the continuation of deposits of the proceeds referred to in paragraph 21 of resolution 1483 (2003);

25. *Decides further* that the provisions in the above paragraph for the deposit of proceeds into the Development Fund for Iraq and for the role of the IAMB shall be reviewed at the request of the Transitional Government of Iraq or twelve months from the date of this resolution, and shall expire upon the completion of the political process set out in paragraph four above;

26. *Decides* that, in connection with the dissolution of the Coalition Provisional Authority, the Interim Government of Iraq and its successors shall assume the rights, responsibilities and obligations relating to the Oil-for-Food Programme that were transferred to the Authority, including all operational responsibility for the Programme and any obligations undertaken by the Authority in connection with such responsibility, and responsibility for ensuring independently authenticated confirmation that goods have been delivered, and *further decides* that, following a 120-day transition period from the date of adoption of this resolution, the Interim Government of Iraq and its successors shall assume responsibility for certifying delivery of goods under previously prioritized contracts, and that such certification shall be deemed to constitute the independent authentication required for the release of funds associated with such contracts, consulting as appropriate to ensure the smooth implementation of these arrangements;

27. *Further decides* that the provisions of paragraph 22 of resolution 1483 (2003) shall continue to apply, except that the privileges and immunities provided in that paragraph shall not apply with respect to any final judgement arising out of a contractual obligation entered into by Iraq after 30 June 2004;

28. *Welcomes* the commitments of many creditors, including those of the Paris Club, to identify ways to reduce substantially Iraq's sovereign debt, *calls on* Member States, as well as international and regional organizations, to support the Iraq reconstruction effort, *urges* the international financial institutions and bilateral donors to take the immediate steps necessary to provide their full range of loans and other financial assistance and arrangements to Iraq, *recognizes* that the Interim Government of Iraq will have the authority to conclude and implement such agreements and other arrangements as may be necessary in this regard, and *requests* creditors, institutions and donors to work as a priority on these matters with the Interim Government of Iraq and its successors;

29. *Recalls* the continuing obligations of Member States to freeze and transfer certain funds, assets, and economic resources to the Development Fund for Iraq in accordance with paragraphs 19 and 23 of resolution 1483 (2003) and with resolution 1518 (2003) of 24 November 2003;

30. *Requests* the Secretary-General to report to the Council within three months from the date of this resolution on UNAMI operations in Iraq, and on a quarterly basis thereafter on the progress made towards national elections and fulfilment of all UNAMI's responsibilities;

31. *Requests* that the United States, on behalf of the multinational force, report to the Council within three months from the date of this resolution on the efforts and progress of this force, and on a quarterly basis thereafter;

32. *Decides* to remain actively seized of the matter.

Annex

Text of letters from the Prime Minister of the Interim Government of Iraq Dr. Ayad Allawi and United States Secretary of State Colin L. Powell to the President of the Council

5 June 2004

Republic of Iraq
Prime Minister Office

Excellency:

On my appointment as Prime Minister of the Interim Government of Iraq, I am writing to express the commitment of the people of Iraq to complete the political transition process to establish a free, and democratic Iraq and to be a partner in preventing and combating terrorism. As we enter a critical new stage, regain full sovereignty and move towards elections, we will need the assistance of the international community.

The Interim Government of Iraq will make every effort to ensure that these elections are fully democratic, free and fair. Security and stability continue to be essential to our political transition. There continue, however, to be forces in Iraq, including foreign elements, that are opposed to our transition to peace, democracy, and security. The Government is determined to overcome these forces, and to develop security forces capable of providing adequate security for the Iraqi people. Until we are able to provide security for ourselves, including the defence of Iraq's land, sea and air space, we ask for the support of the Security Council and the international community in this endeavour. We seek a new resolution on the Multinational Force (MNF) mandate to contribute to maintaining security in Iraq, including through the tasks and arrangements set out in the letter from Secretary of State Colin Powell to the President of the United Nations Security Council. The Government requests that the Security Council review the mandate of the MNF at the request of the Transitional Government of Iraq, or twelve months from the date on which such a resolution is adopted.

In order to discharge the Iraqi Government's responsibility for security, I intend to establish appropriate security structures that will allow my Government and Iraqi security forces to progressively take on that responsibility. One such structure is the Ministerial Committee for National Security, consisting of myself as the Chair, the Deputy Prime Minister, and the Minister of Defense, Interior, Foreign Affairs, Justice, and Finance. The National Security Advisor, and Director of the Iraqi National Intelligence Service will serve as permanent advisory members of the committee. This forum will set the broad framework for Iraqi security policy. I intend to invite, as appropriate, the MNF commander, his Deputy, or the MNF

His Excellency
Mr. Lauro L. Baja, Jr.
President of the Security Council
United Nations
New York, New York

Commander's designative representative, and other appropriate individuals, to attend and participate as well, and will stand ready to discuss mechanisms of coordination and cooperation with the MNF. Iraqi armed forces will be responsible to the Chief of Staff and Minister of Defense. Other security forces (the Iraqi police, border guards and Facilities Protection Service) will be responsible to the Minister of the Interior or other government ministers.

In addition, the relevant ministers and I will develop further mechanisms for coordination with the MNF. Intend to create with the MNF coordination bodies at national, regional, and local levels, that will include Iraqi security forces commanders and civilian leadership, to ensure that Iraqi security forces will coordinate with the MNF on all security policy and operations issues in order to achieve unity of command of military operations in which Iraqi forces are engaged with MNF. In addition, the MNF and Iraqi government leaders will keep each other informed of their activities, consult regularly to ensure effective allocation and use of personnel, resources and facilities, will share intelligence, and will refer issues up the respective chains of command where necessary, Iraqi security forces will take on progressively greater responsibility as Iraqi capabilities improve.

The structures I have described in this letter will serve as the fora for the MNF and the Iraqi government to reach agreement on the full range of fundamental security and policy issues, including policy on sensitive offensive operations, and will ensure full partnership between Iraqi forces and the MNF, through close coordination and consultation. Since these are sensitive issues for a number of sovereign governments, including Iraq and the United States, they need to be resolved in the framework of a mutual understanding on our strategic partnership. We will be working closely with the MNF leadership in the coming weeks to ensure that we have such an agreed strategic framework.

We are ready to take sovereign responsibility for governing Iraq by June 30. We are well aware of the difficulties facing us, and of our responsibilities to the Iraqi people. The stakes are great, and we need the support of the international community to succeed. We ask the Security Council to help us by acting now to adopt a Security Council resolution giving us necessary support.

I understand that the Co-sponsors intend to annex this letter to the resolution on Iraq under consideration. In the meantime, I request that you provide copies of this letter to members of the Council as quickly as possible.

(Signed) Dr. Ayad Allawi

Under the agreed arrangement, the MNF stands ready to continue to undertake a broad range of tasks to contribute to the maintenance of security and to ensure force protection. These include activities necessary to counter ongoing security threats posed by forces seeking to influence Iraq's political future through violence. This will include combat operations against members of these groups, internment where this is necessary for imperative reasons of security, and the continued search for and securing of weapons that threaten Iraq's security. A further objective will be to train and equip Iraqi security forces that will increasingly take responsibility for maintaining Iraq's security. The MNF also stands ready as needed to participate in the provision of humanitarian assistance, civil affairs support, and relief and reconstruction assistance requested by the Iraqi Interim Government and in line with previous Security Council Resolutions.

In addition, the MNF is prepared to establish or support a force within the MNF to provide for the security of personnel and facilities of the United Nations. We have consulted closely with UN officials regarding the United Nations' security requirements and believe that a brigade-size force will be needed to support the United Nations' security effort. This force will be under the command and control of the MNF commander, and its missions will include static and perimeter security at UN facilities, and convoy escort duties for the UN mission's travel requirements.

In order to continue to contribute to security, the MNF must continue to function under a framework that affords the force and its personnel the status that they need to accomplish their mission, and in which the contributing states have responsibility for exercising jurisdiction over their personnel and which will ensure arrangements for, and use of assets by, the MNF. The existing framework governing these matters is sufficient for these purposes. In addition, the forces that make up the MNF are and will remain committed at all times to act consistently with their obligations under the law of armed conflict, including the Geneva Conventions.

The MNF is prepared to continue to pursue its current efforts to assist in providing a secure environment in which the broader international community is able to fulfil its important role in facilitating Iraq's reconstruction. In meeting these responsibilities in the period ahead, we will act in full recognition of and respect for Iraqi sovereignty. We look to other member states and international and regional organizations to assist the people of Iraq and the sovereign Iraqi government in overcoming the challenges that lie ahead to build a democratic, secure and prosperous country.

The co-sponsors intend to annex this letter to the resolution on Iraq under consideration. In the meantime, I request that you provide copies of this letter to members of the Council as quickly as possible.

Sincerely,
(Signed) Colin L. Powell

Attachment 6

The Secretary of State
Washington

5 June 2004

Excellency:

Recognizing the request of the government of Iraq for the continued presence of the Multi-National Force (MNF) in Iraq, and following consultations with Prime Minister Ayad Allawi of the Iraqi Interim Government, I am writing to confirm that the MNF under unified command is prepared to continue to contribute to the maintenance of security in Iraq, including by preventing and deterring terrorism and protecting the territory of Iraq. The goal of the MNF will be to help the Iraqi people to complete the political transition and will permit the United Nations and the international community to work to facilitate Iraq's reconstruction.

The ability of the Iraqi people to achieve their goals will be heavily influenced by the security situation in Iraq. As recent events have demonstrated, continuing attacks by insurgents, including former regime elements, foreign fighters, and illegal militias challenge all those who are working for a better Iraq.

Development of an effective and cooperative security partnership between the MNF and the sovereign Government of Iraq is critical to the stability of Iraq. The commander of the MNF will work in partnership with the sovereign Government of Iraq in helping to provide security while recognizing and respecting its sovereignty. To that end, the MNF stands ready to participate in discussions of the Ministerial Committee for National Security on the broad framework of security policy, as referred to in the letter from Prime Minister of the Interim Government of Iraq Allawi dated June 5, 2004. On the implementation of this policy, recognizing that Iraqi security forces are responsible to the appropriate Iraqi ministers, the MNF will coordinate with Iraqi security forces at all levels — national, regional, and local — in order to achieve unity of command of military operations in which Iraqi forces are engaged with the MNF. In addition, the MNF and the Iraqi government leaders will keep each other informed of their activities, consult regularly to ensure effective allocation and use of personnel, resources, and facilities, will share intelligence, and will refer issues up the respective chains of command where necessary. We will work in the fora described by Prime Minister Allawi in his June 5 letter to reach agreement on the full range of fundamental security and policy issues, including policy on sensitive offensive operations, and will ensure full partnership between MNF and Iraqi forces, through close coordination and consultation.

His Excellency
Mr. Lauro L. Baja, Jr.
President of the Security Council
United Nations
New York, New York



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Purpose

The International Advisory and Monitoring Board (IAMB) is an audit oversight body for the Development Fund for Iraq (DFI).

The DFI was established pursuant to [United Nations Security Council Resolution 1483](#) and holds the proceeds of petroleum export sales from Iraq, as well as remaining balances from the UN Oil-for-Food Program and other frozen Iraqi funds.

Disbursements from the DFI must be used for the benefit of the Iraqi people, and are directed by the Coalition Provisional Authority, in consultation with the Iraqi interim administration. The IAMB will continue to function after the dissolution of the Coalition Provisional Authority on June 30, 2004 and will work with the Interim Government of Iraq, as set out in [United Nations Security Council Resolution 1546](#).

The principal role of the IAMB is to help ensure that:

- The DFI is used in a transparent manner for the benefit of the people of Iraq, and
- Export sales of petroleum, petroleum products, and natural gas from Iraq are made consistent with prevailing international market best practices.

For this purpose, the IAMB functions akin to an audit oversight board. ([Terms of Reference](#))

Attachment 7

International Advisory and Monitoring Board

Ref: IAMB - 6

5 April 2004

Ambassador Paul Bremer III
Administrator,
Coalition Provisional Authority
Baghdad, IRAQ

Dear Ambassador Bremer,


At the invitation of the IAMB, representatives of the Coalition Provisional Authority attended the IAMB meeting held in Kuwait on 17 and 18 March and provided the IAMB with a briefing on the financial reporting and internal control system established by the CPA. The IAMB was informed that the CPA had resorted to the use of non-competitive bidding procedures for some contracts funded from the DFI and that in particular 3 such contracts amounting to \$1.4 billion were awarded to Halliburton. This is a source of concern to the IAMB.

The IAMB acknowledges that special circumstances may have warranted sole-sourced contracts and welcomes steps taken by the CPA to limit such contracts to exceptional circumstances. At the same time, the IAMB would wish to get further information on all sole-sourced contracts paid for using DFI funds, including these 3 contracts. The IAMB has been given to understand that an audit or a number of audits relating to these contracts have been performed. It will be appreciated if these audits could be shared with the IAMB. Depending on the results of its review of the documents, the IAMB may consider requiring a special audit of these contracts in accordance with provisions in the IAMB's terms of reference.

The main purpose of the IAMB reviewing these reports is to avoid any duplication of audit work that will be required. It would be very much appreciated if you could let me know by April 22, the date of the next IAMB meeting, what audit reports could be made

available to the IAMB, so that I would be in a position to inform the other IAMB members and the Iraqi observers. It is understood that these audit reports will be treated confidentially.

Sincerely yours,

A handwritten signature in dark ink, appearing to read 'JPH', with a large, stylized flourish extending from the end of the signature.

Jean-Pierre Halbwachs
Chairman

International Advisory and Monitoring Board

Copy: Members, International Advisory and Monitoring Board

Attachment 8

TOM DAVIS, VIRGINIA,
CHAIRMAN

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NATHAN DEAL, GEORGIA
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PATRICK J. TIBERI, OHIO
KATHERINE HARRIS, FLORIDA

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Congress of the United States

House of Representatives

COMMITTEE ON GOVERNMENT REFORM

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BERNARD SANDERS, VERMONT,
INDEPENDENT

SUBCOMMITTEE ON NATIONAL SECURITY, EMERGING THREATS,
AND INTERNATIONAL RELATIONS

Christopher Shays, Connecticut
Chairman

Room B-372 Rayburn Building
Washington, D.C. 20515
Tel: 202 225-2548
Fax: 202 225-2382

October 5, 2004

The Honorable Donald H. Rumsfeld
Secretary of Defense
U.S. Department of Defense
1000 Defense Pentagon
Washington, DC 20301

Dear Mr. Secretary:

The Subcommittee has been engaged in oversight of contracting and reconstruction efforts by the U.S. government in Iraq. As you know, the U.N. Security Council required the Coalition Provisional Authority (CPA) to act as steward for oil proceeds and other Iraqi funds, which were to be placed in the Development Fund for Iraq (DFI). U.N. Security Council Resolution 1483 required that the United States use Iraqi funds "in a transparent manner to meet the humanitarian needs of the Iraqi people . . . and for other purposes benefiting the people of Iraq." It also required the United States to cooperate with audits by the International Advisory and Monitoring Board (IAMB), which has hired KPMG to audit the DFI.

In order to meet our continuing oversight responsibilities, we request copies of the following documents related to the DFI:

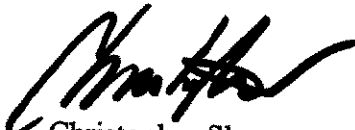
- (1) Records regarding specific deposits to, and withdrawals from, the DFI, including reports, statements, registers, and other summary documents produced on a periodic basis;
- (2) Contracts related to the sale of Iraqi oil products, including contracts between private companies, foreign governments, and other entities and persons;

- (3) Records of oil product exports during the CPA's existence, as well as records of revenue received in exchange for such exports; *none*
- (4) Memoranda, e-mails, reports, and other documents regarding the installation of meters to measure Iraqi oil production, exports, and consumption, including documents regarding contracts, task orders, or grants to install such meters;
- (5) Contracts, task orders, grants, and any other vehicles for the disbursement of funds from the DFI, including the identities of companies, individuals, governments, ministries, programs, or other entities or persons that received funds from the DFI; *OK*
- (6) Summaries, spreadsheets, pivot tables, and other documents regarding expenditures from the DFI; *OK*
- (7) Documents regarding the Program Review Board, including minutes, decision documents, memoranda, reports, records of attendance, and voting records of members;
- (8) Documents provided to the U.S. government by the International Advisory and Monitoring Board (IAMB), including final or draft reports, briefings, tables, charts, summaries, or other materials, and also including requests for information or assistance to U.S. government officials or contractors;
- (9) Documents provided to the IAMB by the U.S. government or contractors, including final or draft reports, briefings, tables, charts, summaries, or other materials, and also including responses to requests for information or assistance;
- (10) Documents regarding the establishment of the IAMB, including memoranda, negotiating documents, correspondence, and e-mails regarding the potential authorities of the IAMB and its certified public accounting firm;
- (11) Documents regarding the requirement in CPA Regulation 2 to hire a certified public accounting firm, including memoranda, decision documents, correspondence, and e-mails regarding the decision not to hire a certified public accounting firm, but to hire North Star Consultants, Incorporated, instead; and
- (12) Documents received by the United States representative to the U.N. Security Council regarding CPA's stewardship of the DFI, including reports submitted by the Secretary General on behalf of the IAMB.


Please provide these documents expeditiously, but in no case later than November 5, 2004. In the even you find you are unable to meet this request at that time, please provide a written explanation of the factors preventing timely compliance and the date upon which any remaining material will be made available. Please also be advised that a

finding by the Subcommittee that an acceptable response has not been provided by the Department on the date requested, or on a subsequent date mutually agreed upon, will result in issuance of a subpoena for the requested information.

Sincerely,



Christopher Shays
Chairman
Subcommittee on National Security



Henry A. Waxman
Ranking Minority Member
Committee on Government Reform

Attachment 9



LEGISLATIVE
AFFAIRS

THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC 20301-1300

15 NOV 2004

The Honorable Christopher Shays
Chairman
Subcommittee on National Security
Emerging Threats and International Relations
Committee on Government Reform
U.S. House of Representatives
Washington, D.C. 20515-6149

Dear Mr. Chairman:

Please find enclosed for your review and consideration the material requested in your 5 October 2004 letter to Secretary of Defense Rumsfeld regarding the Development Fund for Iraq (DFI). Your letter sets forth twelve requests for a wide range of information, and the Department's response follows the order of your requests and is attached to this letter. Also attached is a copy of your 5 October letter.

We have endeavored to expeditiously provide the Committee with as much of the information requested as was reasonably available. I have been advised by the Office of General Counsel that although the documents being provided are not classified, they do contain sensitive information which, if released outside the Committee, could pose a security risk to U.S. and Coalition personnel or be used to undermine Iraqi reconstruction efforts. They have also advised me that some of the information provided, including the response to question 9, contains procurement sensitive information covered by 41 U.S.C. § 423 or proprietary information covered by 18 U.S.C. § 1905. Accordingly, we respectfully request that, unless the information is already available to the public, the documents provided in this transmittal not be released outside the Committee.

Please note that the documents requested cover the period until 28 June 2004, at which time the governance of Iraq was transferred entirely to the Interim Iraqi Government. Any requests for documentation after 28 June should be addressed to the Interim Iraqi Government. We will continue to update you as to the availability of the remaining material. Please feel free to contact Matthew Horn, of my staff, if you have any questions.

Sincerely,

Powell A. Moore
Assistant Secretary of Defense
(Legislative Affairs)

Attachments:

Responses to questions

5 October 2004 letter

Supporting documentation for responses

cc: The Honorable Tom Davis

Chairman

Committee on Government Reform

The Honorable Henry A. Waxman

Ranking Minority Member

Committee on Government Reform

Question (1): Enclosed are the records of specific deposits to, and withdrawals from, the DFI at the Federal Reserve Bank of New York. The documentation is presented on the two enclosed compact discs (CD's). Specifically, the discs contain reports, statements, registers and other summary documents produced on a periodic basis for the DFI. The documents pertaining to the instant question are found on Disc 1. These records were provided to KPMG as part of its audit of the DFI.

Question (2): To the best of our knowledge, the Department of Defense did not enter into any contracts related to the sale of Iraqi oil products.

Question (3): The Coalition Provisional Authority (CPA) did not participate in oil product exports, and as a result no records exist.

Question (4): The Department of Defense is looking to see if any responsive records exist within the Department's possession or control.

Question (5): Attached for your information and use is a spreadsheet containing a list of all contracts that included DFI funding. The majority (estimated at 95%) of the approximately 3000 contract files identified as including DFI funding are located in Iraq and, with limited staffing in-country, copying all of them for submission to the Committee would be time-consuming and costly, and would adversely impact on the performance of other critical missions in Iraq. Therefore, in lieu of providing a copy of each of the contract files, we request that you review the spreadsheet and identify the contracts of interest to the Committee. We will work expeditiously to obtain copies of the identified contract files for Committee review.

To assist in your identification of those contracts of specific interest to the Committee, the spreadsheet includes the following information: an abbreviated description of the scope of work for the contract; the PRB Approval Number; whether the contract was competitive, sole source, or limited competition; the contractor name; the contract number; the date of award, the type of contract, any options to the contract; the available funding amount (obligated amount); type of funds (DFI), period of performance; and the contracting office.

Question (6): We are providing a DFI spreadsheet with associated worksheets and pivot tables with associated worksheets to comply with this request. The contents of this disc were provided to KPMG for the audit of the DFI. Specific contents of the two main files and associated worksheets are listed below. The documents pertaining to the instant question are contained on Disc 2. Please note, the 16 MB file on this disc requires the operator to shut down all other programs to view the pivot tables.

Question (7): We are providing DFI Program Review Board Decision Documents and all known associated supporting documents maintained by the Department of Defense to comply with this request. The contents of this disc were provided to KPMG for the audit of the DFI. The documents that pertain to the instant question are found on Discs 3 and 4.

Question (8): We are providing the Subcommittee with copies of the audit reports completed by KPMG. For your reference, the results of the KPMG audit are a matter of public record and can be found on the IAMB website at: <http://www.iamb.info/dfiaudit.htm>. We also are providing a letter from the IAMB to Ambassador Bremer requesting copies of the audits conducted of sole source contracts that used DFI funds.

Question (9): We are providing Ambassador Bremer's response to the IAMB letter (described in Question 8) as well as the redacted audit reports that were provided to the IAMB in accordance with the IAMB's request. In order to avoid violation of 18 U.S.C. § 1905, the Corps of Engineers requested that the company whose proprietary information is contained in the audit reports review them. The company authorized release to the IAMB of the audit reports as redacted but did not authorize any further release. Additionally, we provided the IAMB with a copy of the Statement of Work and the Justification and Approval for Other than Full and Open Competition. Separately, the Department provided the IAMB with a copy of the CPA-IG's list of contracts that identified those which were sole source and/or DFI funded. One of the audits was not yet available at the time of the last IAMB meeting; we have included it in this package as it will be forwarded to the IAMB shortly.

Question (10): We are in the process of tracking down this material and hope to address this question as soon as possible.

Question (11): The Department is looking for the material that you requested, as well as information on North Star Consultants. We hope to be able to address this question as soon as possible.

Question (12): These documents are not within the jurisdiction of the Department of Defense, and we refer you to the Department of State.

Attachment 10

TOM DAVIS, VIRGINIA,
CHAIRMAN

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BERNARD SANDERS, VERMONT,
INDEPENDENT

SUBCOMMITTEE ON NATIONAL SECURITY, EMERGING THREATS,
AND INTERNATIONAL RELATIONS

Christopher Shays, Connecticut
Chairman
Room B-372 Rayburn Building
Washington, D.C. 20515
Tel: 202 225-2548
Fax: 202 225-2382

March 15, 2005

The Honorable Donald H. Rumsfeld
Secretary
Department of Defense
1000 Defense Pentagon
Room 3E880
Washington, D.C. 20301-1000

Mr. Secretary:

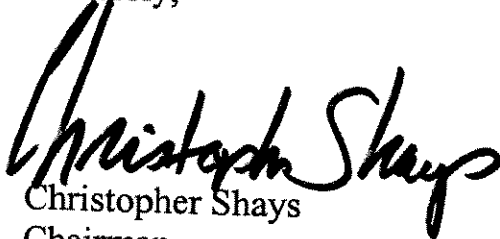
This is to formally request, once again, documents required by the Subcommittee in the conduct of oversight authorized by House Rules.¹ The list of specific documents is enclosed.

The documents should be provided in their entirety and without redactions, omissions or deletions of any kind. There appears to have been some confusion on the part of your staff over the fact our October 5, 2004 request letter (also enclosed) sought complete versions of the documents at issue. That confusion seems to have persisted long after the November 5 due date while we were repeatedly assured the unredacted documents were being prepared for transmittal. The four month delay was both regrettable and avoidable, and I trust it will not happen again.

¹ Rule X, clauses (1)(h)(6), (2)(b)(1), (3)(e) and (4)(c)(2), Rules of the House of Representatives, 109th Congress.

This letter should resolve any remaining questions about the scope of the Subcommittee's request. Please provide the documents to the Subcommittee offices by 5 p.m. Friday, March 18, 2004.

Sincerely,



Christopher Shays
Chairman

cc: Hon. Tom Davis
Hon Henry Waxman
Hon. Kenny Marchant
Hon. Dennis Kucinich

Attachment

- (1) Unredacted copies of the following Defense Contract Audit Agency audit reports:
 - (a) Report on Audit of Proposal for Restore Iraqi Oil Task Order No. 5, Audit Report No. 3311-2004K17900055 (Oct. 8, 2004);
 - (b) Supplement to Report on Assist Audit of Definitization Costs Under the RIO I, Task Order 6, Audit Report No. 2131-2004R27000002 S1 (Aug. 5, 2004) (revised);
 - (c) Report on Assist Audit of Sampled Items for Material Costs Proposed Under Contract No. DACA63-03-D-0005 (RIO I), Task Order 6 Definitization Proposal, Audit Report No. 2131-20004R27000005 (Aug. 17, 2004);
 - (d) Report on Audit of Proposal for Restore Iraqi Oil Task Order No. 6, Audit Report No. 3311-2004K21000028 (Sept. 16, 2004);
 - (e) Report on Audit of Proposal for Restore Iraqi Oil Task Order No. 7, Audit Report No. 3311-2004K21000007 (Sept. 17, 2004);
 - (f) Report on Audit of Proposal for Restore Iraqi Oil Task Order No. 8, Audit Report No. 3311-2004K21000008 (Aug. 31, 2004);
 - (g) Report on Audit of Proposal for Restore Iraqi Oil Task Order No. 9, Audit Report No. 3311-2004K21000011 (Aug. 30, 2004); and
 - (h) Report on Audit of Proposal for Restore Iraqi Oil Task Order No. 10, Audit Report No. 3311-2004K21000012 (Aug. 31, 2004).
- (2) An unredacted copy of the audit report "on the review of controls in the Iraqi State Oil Marketing Organization (SOMO) commissioned by the CPA in February 2004," as referenced in the December 6, 2004, minutes of the International Advisory and Monitoring Board (see www.iamb.info/min/m120604.htm).
- (3) Unredacted copies of the following documents relating to NorthStar Consultants, Inc.:
 - (a) requests for proposals relating to accounting or consulting services for the Coalition Provisional Authority, including requests to which NorthStar responded;
 - (b) contract or contracts between the Coalition Provisional Authority and Northstar, including any task orders or work orders under such contracts;

- (c) all reports produced by NorthStar relating to the administration, use, or operation of the Development Fund for Iraq.

Attachment 11



DEPARTMENT OF THE ARMY
OFFICE OF THE CHIEF LEGISLATIVE LIAISON
1600 ARMY PENTAGON
WASHINGTON, DC 20310-1600



March 24, 2005

REPLY TO
ATTENTION OF

The Honorable Christopher Shays
Chairman
Subcommittee on National Security
Emerging Threats and International Relations
Committee on Government Reform
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This responds to your letter of March 15, 2005, to the Secretary of Defense requesting audit reports and other documents pertaining to Iraq reconstruction efforts. We are providing you with the Defense Contract Audit Agency (DCAA) audit reports you requested and, where those audits have been updated, with the most recent versions as follows:

- (1)(a) Report on Audit of Revised Proposal for Restore Iraqi Oil Delivery Order No. 5, dated October 8, 2004, on RIO Contract, DACA63-03-D-0005 and the subsequent Report on Audit of Revised Proposal for Restore Iraqi Oil Delivery Order No. 5, dated February 25, 2005, on RIO Contract, DACA63-03-D-0005
- (1)(b) Supplement to Report on Assist Audit of Definitization Costs Under the Restore Iraqi Oil Task Order 6, Audit Report No. 2131-2004R27000002 S1, August 5, 2004 (revised)
- (1)(c) Report on Assist Audit of Sampled Items for Material Costs Proposed Under Contract No. DACA 63-03-D-0005 (RIO I) Task Order 6, Definitization Proposal Audit Report No. 2131-2004R27000002 S1, August 17, 2004
- (1)(d) Report on Audit of Proposal for Restore Iraqi Oil Task Order No. 6, dated September 16, 2004, on RIO Contract, DACA63-03-D-0005
- (1)(e) Report on Audit of Revised Proposal for Restore Iraqi Oil Delivery Order No. 7, dated September 17, 2004, on RIO Contract, DACA63-03-D-0005) and the subsequent Report on Audit of Revised Proposal for Restore Iraqi Oil Delivery Order No. 7, dated February 25, 2005
- (1)(f) Report on Audit of Revised Proposal for Restore Iraqi Oil Delivery Order No. 8, dated August 31, 2004 and the subsequent Report on Audit of Revised Proposal for Restore Iraqi Oil Delivery Order No. 8, dated February 25, 2005, on RIO Contract, DACA63-03-D-0005

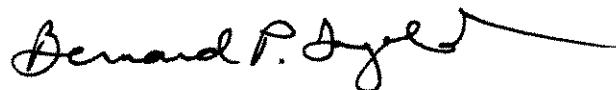
- (1)(g) Report on Audit of Revised Proposal for Restore Iraqi Oil Delivery Order No. 9, dated August 30, 2004, on RIO Contract, DACA63-03-D-0005 and the subsequent Report on Audit of Revised Proposal for Restore Iraqi Oil Delivery Order No. 9, dated February 3, 2005, on RIO Contract, DACA63-03-D-0005
- (1)(h) Report on Audit of Revised Proposal for Restore Iraqi Oil Delivery Order No. 10, dated August 31, 2004, on RIO Contract, DACA63-03-D-0005 and the subsequent Report on Audit of Revised Proposal for Restore Iraqi Oil Delivery Order No. 10, dated February 3, 2005, on RIO Contract, DACA63-03-D-0005

Although these audit reports are not classified, Kellogg Brown & Root Services (KBRS) advises that the reports contain private and proprietary information covered by the Trade Secrets Act, 18 U.S.C. § 1905, the release of which could cause competitive harm. Accordingly, we respectfully request that, should you wish to make some portion of these reports available to the public, we will provide you with redacted versions of the audit reports indicating the information that KBRS asserts is proprietary.

Pursuant to your request under paragraph 2, enclosed is an unredacted copy of the April 2004 KPMG internal audit report of Iraq State Oil Marketing Organization. This document has been redacted in several places to protect proprietary information.

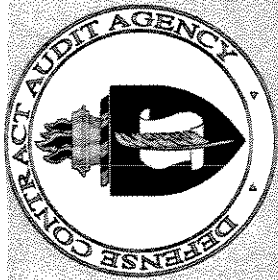
We are also forwarding other documents you requested under (3)(a)(b) and (c) concerning the NorthStar contract, including NorthStar's proposal, the evaluation factors, the contract award and statement of work, and several documents produced by North Star pursuant to the contract. Several redactions have been made to two documents to protect personal information. The Department is continuing a search for any other records that might be responsive to your request. Should further records be discovered, we will provide them to you.

Sincerely,



Bernard P. Ingold
Deputy Chief Legislative Counsel
Investigations and Legislative Division e

Attachment 12



Kellogg, Brown & Root (KBR)

Significant Issues – Restore Iraqi Oil (RIO)

Audit findings on the 7 undefinitized Task Orders:

	Proposed	Questioned	Unsupt.
	Cost*	Cost*	Cost*
Task Orders 3 & 6	\$ 954.1	\$ 28.8	\$ 59.1
Rev. Proposals (5,7,8,9,10)	<u>1,478.2</u>	<u>176.4</u>	<u>-0-</u>
Totals	<u>\$ 2,432.3</u>	<u>\$ 205.2</u>	<u>\$ 59.1</u>

- KBR failed to support reasonableness of prices paid for fuel purchased from a Kuwaiti supplier (\$139 million).
- KBR inappropriately adjusted fixed prices for fuel purchased from a Turkish supplier (\$32 million).

* Dollar amounts in Millions

Attachment 13

Development Fund for Iraq
Report of Factual Findings
in connection with Disbursements, continued
For the period from 1 January 2004 to 28 June 2004
(all amounts are in US dollars)

Projects administered by the CPA

Our sample comprised 58 funding plans (programs) and payments made on behalf of the Iraqi Ministries, which included 96% of the total value.

Further to the transfer of power from the CPA to the new Interim Government of Iraq, most CPA Senior Advisors and their staff left Iraq. Consequently, in certain cases we encountered difficulties in gathering evidence for the completion of our procedures, including obtaining supporting documentation for funding programs, projects or contracting files, and meeting with former staff responsible for these programs.

For our sample of project disbursements we found that all key internal controls for the funding approvals to which disbursements related were followed, except for the following deviations:

- We found one case where the approval of funds took place the day after the contract was signed (\$7,050,000).

6.2.6 For our sample of project disbursements we found that all key internal controls for the bidding on and awarding of contracts to which disbursements related were followed, except for the following deviations:

- We found 34 cases where disbursements and advance payments had been made to the United States Army Corps of Engineers (USACE) for import of petroleum products (\$983,704,969), restoration of oil infrastructure (\$67,573,813), restoration of Iraqi electricity (\$606,739,525) and other projects (\$41,482,614).

We noted that disbursements to the USACE were authorized by the PRB and approved by the CPA Administrator, under a series of Memoranda of Understanding (MoU). Under these MoU the USACE utilized DFI funds for new work approved by the CPA Administrator. We were informed by the USACE that the contract vehicle was several task orders added to existing contracts that had been openly competed well before the start of the CPA and also issued new contracts.

We had limited access to contracting procedures and documentation for contracts awarded by the USACE. However, we were informed by the USACE that their contracts were awarded with limited competition from the largest US construction companies. In one case, we were provided with written justification for the limited competition on the electricity contracts.

We noted that two contracts related to the restoration of oil infrastructure were transferred from the USACE to the Project Management Office, a US Government agency.

Attachment 14



KELLOGG BROWN & ROOT SERVICES, INC
GOVERNMENT OPERATIONS - RIO
4100 CLINTON DR, HOUSTON, TX 77020

Mr. Gordon A. Sumner
Contracting Officer
USACE Southwestern Division CESWD-CT
1100 Commerce Street Room 824
Dallas, Texas 75242

28 September 2004
RIO-04-0037

SUBJECT: DACA63-03-D-0005 Proprietary Information, Task Order 0009

Dear Mr. Sumner:

As we have discussed in the past, Kellogg Brown & Root Services, Inc. (KBR) is adamant about maintaining its right to protect KBR proprietary information from disclosure to competitors and to the general public. Protections against such disclosure are written into the Freedom of Information Act and into implementing subparts of the Federal Acquisition Regulations.

To facilitate your continued request for release of the DCAA audit report for Task Order 0009, KBR has redacted the information that KBR considers to be a disclosure of its proprietary policies, procedures, and accounting information. In addition we have redacted the statements of DCAA that we believe are factually incorrect or misleading and could be used by a competitor to damage KBR's ability to win and negotiate new work.

KBR provides information under the subject contract for use by the U.S. Government and its agencies in managing the work under this contract and fulfilling agency objectives and for whatever other uses may be granted to the U. S. Government by law.

Should you require additional information, please contact me at 713-753-2506.

Sincerely,

Michael K. Morrow
Contracts Manager

CC: John H. Rodgers



KELLOGG BROWN & ROOT SERVICES, INC
GOVERNMENT OPERATIONS - RIO
4100 CLINTON DR, HOUSTON, TX 77020

Mr. Gordon A. Sumner
Contracting Officer
USACE Southwestern Division CESWD-CT
1100 Commerce Street Room 824
Dallas, Texas 75242

5 Oct 2004
RIO-04-0039

SUBJECT: DACA63-03-D-0005 Audit Reports to be Released to the United Nations

REFERENCE: (a) KBR Letter RIO-04-0034 dated 28 Sept 2004
(b) KBR Letter RIO-04-0035 dated 28 Sept 2004
(c) KBR Letter RIO-04-0036 dated 28 Sept 2004 (revised)
(d) KBR Letter RIO-04-0037 dated 28 Sept 2004
(e) KBR Letter RIO-04-0038 dated 28 Sept 2004

Dear Mr. Sumner:

At the request of the U.S. Army Corps of Engineers (USACE), Kellogg Brown & Root Services, Inc. (KBR) agrees to the release to the United Nations of the full Defense Contract Audit Agency (DCAA) reports of the Task Orders 0006 through 0010 in redacted form as contained in the referenced letters. This consent applies only to release to the United Nations for its current audit and does not extend to any release of the redacted audits to any member states.

Should you require additional information, please contact me at 713-753-2506.

Sincerely,

Michael K. Morrow
Contracts Manager

CC: John H. Rodgers

Attachment 15

Management Comments, Defense Support Office – Iraq



OFFICE OF THE SECRETARY OF DEFENSE
1000 DEFENSE PENTAGON
WASHINGTON DC 20310-1000

October 07, 2004

MEMORANDUM FOR THE INSPECTOR GENERAL OF THE COALITION
PROVISIONAL AUTHORITY (CPA-IG)

FROM: Director, Defense Support Office - Iraq

SUBJECT: OSD COMMENTS TO ACCOMPANY AMBASSADOR L. PAUL
BREMER'S COMMENTS ABOUT THE CPA-IG DRAFT REPORT "OVERSIGHT
OF FUNDS PROVIDED TO IRAQI MINISTRIES THROUGH THE NATIONAL
BUDGET PROCESS" (PROJECT NUMBER D2004-DCPAAF-0007)

This memo provides management comments on your draft report, "Oversight of Funds Provided to Iraqi Ministries through the National Budget Process," dated July 12, 2004. We appreciated meeting with your auditors on July 28, 2004, and believe these written comments to be consistent with our representations at the meeting. We also appreciate that you recently interviewed Ambassador Bremer and senior Coalition Provisional Authority (CPA) staff as an important step toward ensuring completeness of the audit.

We strongly object to the draft report's conclusion that the CPA did not provide adequate and transparent stewardship of Development Fund for Iraq (DFI) funds disbursed to Iraqi ministries. We believe this sweeping and unqualified conclusion is neither an accurate representation of the CPA management of the DFI nor is it substantiated by the findings, which relate to only one aspect of the CPA's stewardship of the DFI – oversight of the Iraqi ministries' execution of these funds. The CPA's stewardship of the DFI resulted in numerous accomplishments that are not reflected in this audit of such narrow scope.

Additionally, in our view, a conclusion concerning the CPA's stewardship of the DFI needs to be preceded by essential facts that put the conclusion in context. These include:

- The fact that the DFI was comprised entirely of Iraqi funds being returned to the Iraqis through an open process with significant Iraqi participation.
- The difficult circumstances under which the CPA operated and managed the DFI, including particularly the wartime security conditions, the CPA's critical need to reestablish Iraqi ministries that had never functioned and/or had ceased to function, the ministries' lack of basic tools such as computers and telephones, and the constraints of a largely cash economy.
- The US Government (USG) and the CPA policy objectives – consistent with UN Security Council Resolutions – to transfer administrative responsibilities for the Iraqi ministries to an Iraqi administration as an essential part of the restoration of Iraqi governance authority.

- The reality that during the CPA-IG's preparation of the audit, the CPA was in the process of instituting financial processes and controls. In this respect, the CPA-IG was auditing a work in progress, not the final results of the CPA's efforts.

Furthermore, the audit does not take into account that the CPA exercised its stewardship of the DFI through many initiatives designed to ensure transparency in the use of Iraqi funds. Under the previous regime, Iraqi funds were used in a secretive manner to benefit Saddam and his regime. Under the CPA, Iraqi funds (principally the DFI) were allocated, disbursed, and used in a transparent manner for the benefit of the Iraqi people. In August 2003, the CPA promulgated detailed procedures applicable to the expenditure of Iraqi funds through contracts and grants. These procedures were approved by the Coalition governments, the international financial institutions, and the Interim Iraqi administration, and are consistent with internationally accepted public fund execution standards. The CPA disbursed funds to the Iraqi ministries consistent with a published National Budget (jointly developed by the CPA and the Iraqi Ministers and approved by the Iraqi Governing Council) and the recommendations of the CPA Program Review Board (PRB). The PRB's minutes, the National Budget, and the DFI fund balances were posted on the CPA's public web site. Further, there were important, observable results from disbursing funds to the Iraqi ministries - the employees were paid, the ministries resumed operations, and, importantly, the Interim Iraqi Government therefore had functioning ministries at the transition of governance on June 28, 2004.

Moreover, the CPA took a number of actions that improved the Iraqi government budgeting and financial management. These included:

- Establishing a functioning budget process; writing a budget law, and beginning to restructure the chart of accounts to conform to International Monetary Fund (IMF) budget standards.
- Promoting accountability and combating corruption, including re-establishing Iraq's Board of Supreme Audit, creating the Commission on Public Integrity, and establishing Inspectors General in each ministry.
- Contracting for a Financial Management Information System for the Ministry of Finance and other ministries that, when complete, will provide the expenditure tracking called for by the audit.

None of these initiatives appears to have been acknowledged or given weight by the auditors - despite the "Audit Comments" noting that the CPA-IG was providing no recommendations because corrective management actions had already been taken during the audit period. Moreover, the audit's conclusion appears to have been based on two judgments that were principally about policy, rather than management.

First, the audit does not recognize that the CPA - consistent with international law and as part of its objective, consistent with UN Security Council resolutions, to transfer responsibilities to Iraqis as soon as possible - took the consistent position that expenditures by Iraqi ministries were to be managed by the Iraqis and, over time,

overseen by Iraqi auditors. The audit faults the CPA for failing to provide adequate stewardship of the DFI funds at the Iraqi ministry level without recognizing the CPA's obligations, including under UN Security Council Resolution 1511, to ensure that the administration of Iraq was progressively undertaken by structures of the interim Iraqi administration, as well as the CPA's obligation to return governance responsibilities and authorities to the people of Iraq as rapidly as practicable. Consistent with international law and applicable UN Security Council resolutions, it was USG policy to give the Iraqis as much control of the ministries as practicable -- beginning with the appointment of Interim Ministers in September 2003. This included Iraqi control of expenditures in accordance with the National Budget. This policy was a necessary step toward restoration of a sovereign Iraqi government.

Second, the audit concludes that the CPA did not meet the transparency requirements of UN Security Council Resolution 1483, without articulating any appropriate standard on which this judgment is based and without any analysis showing how the CPA-IG evaluated applicable obligations under Resolution 1483. In fact, the CPA, in accordance with UN Security Council Resolution 1483, disbursed DFI funds to the Iraqi ministries in a transparent manner for the purposes reflected in the Iraq National Budget to benefit the Iraqi people. The draft audit disregards the uncontested fact that the CPA took a number of actions to ensure transparency (publishing the minutes from PRB meetings, publishing the Iraqi National Budget, including Iraqis in the PRB, etc.), focusing only on the unavailability of near real-time budget execution data. The measures to ensure transparency were consistent with USG obligations under Resolution 1483.

We agree that the CPA faced managerial, financial, and contract challenges, given the numerous difficulties inherent in the establishment of a coalition organization exercising governance authority, the historic nature of its tasks, and the requirement to fulfill this vital mission in a combat zone. The CPA acted to address these challenges. In this light, we disagree strongly with the conclusion that, because of policy decisions regarding Iraqi management of the execution of the Iraqi funds, the CPA failed to meet objective standards for transparent stewardship of DFI funds. The attached General and Specific Comments provide additional detail.

We request that you reconsider the draft report in light of Ambassador Bremer's assessment of the audit as well as the comments I am providing herein. We have suggested language in section III (Conclusion) attached that is consistent with the limited scope and findings of the audit, and that recognizes the CPA's accomplishments under extremely difficult circumstances.


Joseph A. Benkert
Deputy

I. General Comments

1. The Draft Report Fails to Account for the Objectives of USG Policy

The draft report does not recognize that the CPA -- for the important reasons discussed above -- took the consistent position that expenditures by the Iraqi ministries were to be managed and overseen by the Iraqi interim administration. The CPA realized that the only practicable approach to executing the expenditures needed for Iraq was to assume a supervisory role and to empower the Iraqi ministries as necessary both to meet the needs of the Iraqi people and to enable the development of Iraqi governmental institutions. This approach was fully consistent with the CPA's roles and obligations under UN Security Council Resolutions 1483 and 1511 to transfer the administration of Iraq progressively to the evolving structures of the Iraqi interim administration; and to return governing responsibilities and authorities to the people of Iraq as soon as practicable. The alternative would have been to institute a new system that would have delayed vital expenditures for months and would not have involved Iraqis to the extent necessary to achieve important objectives in Iraq. Such a delay would have further exacerbated an already challenging security environment and would have hindered the fulfillment of the governance obligations noted above. Additionally, the draft report fails to acknowledge that such alternatives would have required a huge addition to the CPA staff to run the Iraqi ministries, or a system (likewise with major staff increases) by which the Coalition would directly control all the DFI expenditures until the Iraqi ministries were fully able to meet international accounting standards. Neither of these options made sense given the CPA's obligations and the important objective of moving as quickly as possible to transition to Iraqi governance authority. Finally, although the CPA-IG auditors told DoD officials that the draft report was a snapshot in time as of April 2004, there is no acknowledgement in the draft report that great efforts were being made to prepare the Iraqi Ministries to function competently upon transition to full governance authority just two months later.

2. The Draft Report Does Not Recognize the CPA's actions to establish Financial Management Controls and Its Promotion of Transparency and Good Governance

The draft report excludes multiple CPA actions to establish financial management controls over DFI resources and increase the transparency, effectiveness and accountability of Iraq's government. Specifically, the CPA:

- Promulgated CPA Regulation No. 2 in order to place responsibility with the Program Review Board (PRB) for reviewing competing requirements for the relief and recovery of Iraq, assessing available resources, and developing a comprehensive budgetary framework that identified prioritized requirements for proposed disbursements from the DFI.

- Promulgated CPA Regulation No. 3 to establish the PRB "to ensure that funds . . . available to the CPA . . . are managed in a transparent manner." Since August 2003, PRB members met on more than sixty separate occasions to review and vote on funding requests. In order to ensure transparency, these decisions were posted on the CPA's web page.
- Developed and published CPA Memorandum No. 4 regarding contracting and grant procedures in order to ensure that Iraqi funds were expended transparently and in accordance with internationally accepted procurement standards. These standards applied to the Iraqi ministries unless the CPA determined that a ministry's contracting procedures were sufficient to ensure the transparent use and management of Iraqi funds. The Defense Contract Audit Agency (DCAA) did review contracting capabilities in three ministries, but DCAA was not able to review all the ministries and at the same time meet other high priority requirements, such as performing contract audits or projects resourced with USG appropriated funds.
- Published Iraqi National Budget data, PRB meeting minutes, and DFI fund information, including receipts, disbursements, and fund balances on the CPA's web page.
- Initiated economic reform initiatives through the US Agency for International Development's (USAID's) contract with Bearing Point.
- Worked with the Iraqi Ministry of Finance to automate the Iraqi public expenditure process through the development of a Financial Management Information System (FMIS) to be used by the Iraq Ministry of Finance and the other Iraqi ministries.
- Promulgated CPA Order No. 19 in order to ensure the independence of the Central Bank of Iraq (CBI). The CPA worked with the CBI and the Iraqi Ministry of Finance to execute a huge Iraqi currency exchange program successfully.
- Assisted the Iraqi ministers with the development and execution of their programs. Some of the key CPA staffs assigned to support the ministries had budget analysts assigned to assist the Iraqis. Although the CPA tried to recruit additional budget analysts, the security situation in Iraq made such efforts extremely difficult and limited the assistance the CPA was able to provide to the Iraqi ministries in their budget execution.
- Worked with the USG, the Coalition governments, and the international financial institutions, as well as the Iraqis, to develop and promulgate orders establishing a new financial management law for the national budget, a new procurement law, a revised law strengthening the Board of Supreme Audit, and a law providing for inspectors general for the Iraqi ministries.

- Used the DoD Financial Management Regulation (DoDFMR) as a guide in developing program controls and forms for the disbursement of DFI funds.

3. The Draft Report Reaches Overly Broad Conclusions Based on Limited Findings

The draft report includes broad, unvalidated statements based upon limited reviews and unclear standards of performance.

- The audit methodology extrapolates from a "snapshot" of the activities of fewer than half of the CPA's senior advisors, over a span of several weeks near the end of the CPA's tenure, to reach conclusions on the performance of CPA as a whole over the CPA's entire tenure. Indeed, only 9 of the 26 senior advisors' offices were reviewed. Some CPA senior advisors were new in their positions and were not on the CPA staff when the CPA worked with the Iraqi ministries to develop the Iraq National Budget. Furthermore, during the time the audit was conducted, all CPA senior advisors were focused on the critical requirement of transitioning governance responsibilities to the Iraqi ministries.
- There is little evidence in the draft report of direct contact with the Iraqi ministries themselves, particularly the Ministry of Finance. Had the CPA-IG auditors interviewed Iraqi officials responsible for the management and disbursement of the Iraq National Budget, they could have attempted to obtain information on the status of the \$8.8 billion, including how much had been distributed by Iraqi ministries for their operating and capital budget requirements, how much is still on hand in Iraqi ministry bank accounts, and how much had been expended for government salaries and for other purposes.
- The salary discussion in the draft report cites a single instance of poor management of the Facilities Protection Service (FPS) and generalizes that all salary payments were flawed. The FPS represented 74 thousand employees, representing approximately six-tenths of one percent of the 1.2 million Iraqis on the national payroll. Furthermore, the FPS was a unique case in that the overriding priority was for the FPS to be established as soon as possible in order to begin relieving the pressure on Coalition Forces for providing fixed-site security. In this vein, the CPA and DoD recognized that although it was necessary to entrust Iraqi ministry officials with the responsibility for expending Iraqi funds for salary purposes, such action could result in potential duplicate or otherwise improper payments. It was also understood, however, that placing sufficient Coalition Forces and CPA personnel at the multitude of payment locations across the country to verify Iraqi government employee identification numbers versus employee listings would be impractical, would likely be more expensive than accepting some risk of improper payments, and would pose significant force protection risk.
- The CPA-IG properly identified internal control problems within the Iraqi ministries in the disbursement of their budgeted resources (which included not only funds disbursed from the DFI, but also seized and vested funds disbursed to the Ministry of Finance for budget requirements and cash existing in the Iraqi national banks that was not seized by

coalition forces). These findings, however, are not a basis for concluding that the CPA did not provide adequate stewardship of \$8.8 billion in DFI funds.

II. Specific Comments

OSD Comment 1:

Page (1)

- The section on "Managerial Controls" asserts the CPA did not staff the Ministry of Finance/OMB advisors with sufficient personnel. Although additional staff might have been helpful, the analysis on page 4 does not provide any indication of how many personnel would have been sufficient to provide the level of oversight called for in the draft report. Further, although it is generally acknowledged that there were practical and logistical constraints on the total number of CPA staff, there is no evidence that any MOF/OMB advisor staffing request was denied by the CPA. Indeed, the CPA Human Resources Office attempted to recruit additional budget analysts with some success.

OSD Comments 2& 3

Page 2

- Contrary to the final sentence under "Contracting Procedures," at least one other ministry (the Ministry of Electricity) besides the Ministry of Finance had been approved for contracting.
- The scope of the draft report changed without explanation. Under the section titled "Objective" it is stated: "The original objective of the audit was to determine whether the Coalition Provisional Authority has implemented adequate procedures for recording, reviewing, and reporting DFI disbursements. During the audit, we limited the scope to review procedures and controls over DFI funds provided to the interim Iraqi government through the national budget process."

OSD Comment 4

Page 3

- Under the section titled "Managerial Controls," there is an indication that some senior advisors claimed that the CPA guidance pertaining to the DFI was unclear. No evidence is provided, however, to support that the alleged lack of clarity resulted in "inadequate" oversight. Furthermore, the CPA staff members responsible for DFI disbursements were clear on the policy and procedures for DFI administration. They ensured that the disbursements from the fund were properly approved and documented and were made in a transparent manner for the benefit of the Iraqi people.

OSD Comment 5

Page 5

- The following statement in the draft report should be put in the proper context: "According to CPA Ministry of Finance/OMB officials, reviewing budget execution was not their responsibility." Consistent with applicable UN Security Council resolutions and international law, USG policy guidance, and practical and political limitations, the Iraqis were given responsibility for their ministry budget execution. As a consequence of this appropriate role for the Iraqi ministries, there was necessarily a more limited role for CPA senior advisors in budget execution. Again, during the period in which the audit was conducted, ministry senior advisors were rightly focused on efforts to transfer complete governance authority to the Interim Iraqi Government.

OSD Comments 6, 7, & 8
Page 6

- It is necessary to comment also on the following statement: "CPA officials authorized payments of DFI funds for 74,000 Facilities Protection Services (FPS) guards' salaries even though the FPS and number of guards was not validated." The statement is made without mention of the extenuating circumstances requiring payment of the salaries on a timely basis. At the time, prompt payment was considered to be absolutely vital to the safety and well-being of the FPS guards and the Iraqi people in general. Without adequate qualification, a reader might mistakenly believe that the decision to pay salaries without more extensive validation procedures resulted from carelessness on the part of CPA, which was not the case.

- The section titled "Salary Payments" implies evidence of payroll irregularities, yet is unclear on the details of when and how these irregularities occurred, and fails to note whether the CPA-IG referred these examples to an appropriate investigatory body. Lack of documentation within the Ministry of Finance is cited, but there is no evidence of whether the CPA-IG sought this information from the disbursing entities.

- In the section titled "Transparency," there is the statement that "transparency requires more than posting budgets and total disbursements on the internet," yet fails to present an international standard for transparency against which the CPA is being evaluated. As Ambassador Bremer's letter states, the draft audit presumes the CPA could achieve within one year a standard of budgetary transparency and execution that even Western nations would have trouble meeting, especially in a combat environment.

OSD Comments 9 & 10
Page 7

- As part of the "Transparency" section, the following statement is made: "Although the UN provided \$2.5 billion dollars to the DFI in March and April 2004, the CPA did not update the Iraqi National Budget to reflect budget plans for those monies." This statement is not correct. In fact, the CPA did produce an updated working copy of the budget that was validated and shared with the Iraqi Ministry of Finance. When asked, Interim Iraqi Government officials indicated a preference that the CPA not officially

publish the amended budget that had been prepared. Rather, they preferred to leave final decisions regarding an amended budget to the new sovereign government. Their wishes were honored.

- It is necessary to comment on the following statement: "An improper \$120 million disbursement was made in May 2004 because of miscommunication between the CPA/OMB and Comptroller's office." This statement is misleading. A miscommunication led to \$120 million being released a month early. Without adequate description, a reader could conclude that a \$120 million disbursement was made that would otherwise never have been made. In fact, the disbursement would have been made the following month. Only the timing was in error.

OSD Comment 11
Page 9

- The discussion of the post-July contract management procedures appears to be mistaken, citing a July 1 action that post-dates the audit period.

OSD Comment 12
Page 10

- The section titled "Audit Comment" notes that no recommendations are provided because actions had been taken that should correct the problems. These corrective management actions, however, were taken within the audit period. Therefore, they should be reflected throughout the body of the draft report, not just in the "Audit Comments" section at the end of the report.

III. Conclusion

Our suggested conclusion is as follows:

The CPA disbursed funds from the DFI based upon Program Review Board recommendations of individual relief and reconstruction projects and operating and capital expenditure requirements in the Iraqi National Budgets that were approved by the interim Iraqi administration. We note concerns regarding the oversight and documentation of DFI fund expenditures by the Iraqi ministries. However, operating within constraints inherent in the combat environment in which it carried out a historic mission, the CPA established financial management controls consistent with the applicable U.N. Security Council resolutions and international law.